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Accounting Profession in the Netherlands, Second Edition Revised; Professional Accounting in Foreign Country Series

Moret Ernst & Young in the Netherlands

Steven F. Moliterno

SECOND EDITION, REVISED

The Accounting Profession in the Netherlands

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

AICPA
American Institute of Certified Public Accountants

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AICPA

NOTICE TO READERS

The Professional Accounting in Foreign Countries series is designed to be educational and used as reference material for the members of the Institute and others interested in the subject. It is not intended to establish standards.

The International Practice Committee gratefully acknowledges the contributions made to the development of this series by former committee chairmen Howard Keefe and Harvey Moskowitz and former staff aides James Flynn and Susan Sgromo. The committee would also like to acknowledge the fine editorial efforts of Carrie Vaccaro and Peter Homans and the production work of Robert DiCorcia, Jeanmarie Brusati, and Ingrid Anderson.

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The Accounting Profession in the Netherlands

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

Prepared by

Moret Ernst & Young in the Netherlands

STEVEN F. MOLITERNO, CPA
Series Editor

AICPA
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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of January 1991 and is a revision to the booklet issued in 1987. Changes after this date in the standards of either the United States or the Netherlands may alter the comparisons and references detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in the Netherlands. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing auditing standards and accounting principles in the Netherlands with those generally accepted in the United States are appendixes to the text.

This booklet is not intended to be a comprehensive discussion of auditing standards and accounting principles in the Netherlands but is designed instead to focus primarily on differences from those of the United States.

John F. Hudson
Vice President—Technical
Standards and Services

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The Accounting Profession

REQUIREMENTS FOR ENTRY INTO THE PROFESSION

Domestic Functions and Licensing Requirements

1. The accounting profession in the Netherlands was officially established in 1895 with the foundation of the Netherlands Institute of Accountants. In 1967 the Registeraccountants Act (the "Act") took effect. The Act provided for the foundation of the Nederlands Instituut van Registeraccountants (NIvRA), which can be reached at the following address:

Nederlands Instituut van Registeraccountants
A.J. Ernststraat 55
Postbus 7984
1008 AD Amsterdam

The Act governs the auditing function in the Netherlands and limits the public auditing function to members of the NIvRA or to accountants with foreign qualifications who have been granted a license by the Minister of Economic Affairs.

2. The Act deals with (*a*) the internal organization of the NIvRA, including examinations and other requirements for entry into the members' register, (*b*) disciplinary matters, and (*c*) control by the government of NIvRA regulations. Use of the title *registeraccountant* (RA), a title similar in meaning to *certified public accountant*, is protected by the Act. Like its U.S. counterpart, an RA need not necessarily be in

public practice but can act as a governmental auditor or work in industry or education.

3. In the Netherlands, annual accounts can only be audited by an expert, as defined by law, who is qualified to express an opinion thereon. The term *expert* refers to an RA as well as any person recognized as such by a license issued by the Minister of Economic Affairs. Annual accounts may also be reported on by RAs who are employed as internal auditors, but due to the internal auditor's lack of independence, this is only permitted for internal purposes. In such cases, the external auditor may place significant reliance on the internal auditor's report.

4. In addition to public auditing functions, RAs' reports are issued on other financial statements (for example, for prospectuses or investigations for special purposes, such as acquisitions). Consulting RAs commonly provide services with regard to information systems, internal organization, financing, costing and cost control, and taxation. Such services may be performed either in conjunction with, or distinct from, the auditing function.

5. In 1974 the Act on Accountants-Administratieconsulenten (AAs) came into effect, regulating this second tier of the Dutch accounting profession and authorizing these professionals to perform the following services:

- Set-up and maintenance of accounting records, review of the manner in which records are kept, and preparation of financial statements
- Analysis and interpretation, in explanatory reports, of the data extracted from a company's records and of the supply of information and advice in connection with such data

AAs are not authorized to certify accounts.

6. In 1990 a study committee reported on the implementation in the Netherlands of the European Economic Community (EEC) Eighth Directive, which regulates the accounting profession. A summary of the committee's most important recommendations follows.

a. The Act and the act on AAs should be merged into one act for the entire accounting profession.

b. The contents of the new act should be in accordance with the substantive standards of the EEC Eighth Directive concerning the requirements for the statutory auditor with respect to theoretical knowledge, practical experience, independence, and diligence.

c. The new act should only be concerned with the statutory auditing function and not with other services. The statutory requirements concerning the disciplinary rules for public accountants should apply not only to the statutory audit but also to other audit services.

d. The education of a statutory auditor should consist of a theoretical education and three years of practical training. Individuals who have completed their theoretical education may receive the title *accountant-administratieconsulent.* Those who have also concluded their practical training may receive the title *registeraccountant.*

e. Depending on their practical experience, current AAs should be allowed to obtain the right to become RAs with additional education.

f. Current AAs who do not apply for the additional education to become an RA should be allowed to use their title permanently.

Foreign Reciprocity

7. Under a system controlled by the Minister of Economic Affairs (not the NIvRA), accountants with foreign qualifications may operate in the Netherlands in the same capacity as RAs. To obtain a license from the minister, a foreign applicant must show proof of suitable qualifications obtained abroad and satisfactory adherence to ethical standards. Further conditions may be attached to the license, such as a demonstration of familiarity with Dutch company, tax, and accounting law.

8. The study committee mentioned in paragraph 6 has recommended that auditors of other EEC countries, qualified according to the EEC Eighth Directive, be allowed to perform the statutory auditing function in the Netherlands and have the right to use the title *registeraccountant.*

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

9. Accounting principles are not codified in the same manner or to the same extent in the Netherlands as they are in the United States. The Dutch legislature is responsible for setting standards concerning

annual accounts. The most important law in this regard became effective on January 1, 1984. This law introduces the requirements of the EEC Fourth Directive on annual reports into the Dutch Civil Code (Book 2, Title 9). The law regulates the form and content of annual reports, as well as the extent to which they should be audited and made available for public inspection. To implement the EEC Seventh Directive on consolidated accounts, the Dutch legislature amended and extended the law in November 1988. The courts—notably, the Enterprise Court—have exclusive jurisdiction with regard to interpretation of the accounting laws. A committee made up of representatives of the NIvRA and of organizations of information suppliers and users issues accounting and reporting guidelines deemed acceptable in the Netherlands. This committee, titled Raad voor de Jaarverslaggeving (Council for Annual Reporting), issues pronouncements, titled Richtlijnen voor de Jaarverslaggeving (Guidelines for Annual Reporting), on a number of subjects. These guidelines should be regarded as authoritative pronouncements for issuers of financial statements when there is doubt about a matter or for general guidance (for example, on matters of disclosure, interpretation of the law, or establishment of a "true and fair" view). The guidelines have no legislative status but may be considered an important frame of reference by the courts for arriving at decisions.

10. Therefore, the NIvRA does not issue codified accounting principles. However, as a founding member of the International Accounting Standards Committee (IASC), the NIvRA endeavors to ensure that the Dutch business community will accept the standards issued by the IASC. The Raad voor de Jaarverslaggeving has reviewed several IASC standards and has incorporated these within its guidelines where appropriate.

11. In summary, accounting principles in the Netherlands can be derived from the following:

- The Dutch Civil Code and related governmental decrees
- Jurisprudence
- *Richtlijnen* (guidelines)
- Other authoritative sources such as literature, IASC standards, and generally accepted practice

12. The Dutch profession is fully autonomous in setting the auditing standards required to meet legal audit requirements. Historically, the

Dutch profession has avoided detailed guidance to public accountants on auditing principles and procedures. In the 1970s, however, the NIvRA started issuing both *ad hoc* opinions on various topical subjects and interpretations of its Code of Conduct. Since 1985 the NIvRA has been working on a comprehensive set of auditing guidelines (see paragraph 39 and appendix A for details).

Ethics Requirements

13. Among other things, the Code of Conduct, which has legislative status, provides broad ethical guidance to its members on matters of principle (such as independence and due care) and matters of conduct (such as advertising, fees, and practicing rules). The NIvRA Board elaborates on the code through auditing pronouncements as mentioned in paragraph 12. In general, the same ethical rules apply in the Netherlands as in the United States; however, the Dutch rules are not so extensively codified.

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

Requirements for Membership

14. Designation as an RA can only be obtained by someone who has passed a series of examinations, as described in the Act, and who is entered in the members' register. The educational qualifications for RAs are stringent. These qualifications can be obtained through university courses or examinations organized by the NIvRA. Membership in the NIvRA is granted only after an applicant has obtained the necessary qualifications and, subsequently, his or her name has been entered into the register (that is, after the applicant has become an RA).

15. The educational qualifications may be obtained at any of the universities in the Netherlands with an economics faculty. The educational process is twofold. The first step is to obtain a degree in business economics by completing a full-time course, which takes four to five years. The second step is to complete a part-time postgraduate course lasting two to three years, during which time candidates are usually employed by public accounting firms.

16. The NIvRA courses are only available on a part-time basis. Usually, candidates are initially employed with a firm of public accountants, as internal or governmental auditors, or in industry after finishing high school or the higher-level economic and administration schools. They attend evening and day classes organized by the NIvRA. A candidate normally takes about nine years to complete the full program of courses required for the RA designation.

17. There is currently no training requirement, but this will change when the EEC Eighth Directive is implemented. The Eighth Directive requires a candidate to complete at least three years of training before being permitted to begin public practice (see paragraph 6).

Rights of Membership

18. In the Netherlands, the primary right of membership is the right to certify annual accounts.

Number of Members

19. The NIvRA has about 7,100 members, of which about 40 percent are in public practice, 11 percent are governmental auditors, 6 percent are internal auditors, 21 percent work in industry in a financial executive capacity, 20 percent are retired, and the remainder work in various other capacities (educators, consultants, etc.).

CPE Requirements

20. The mandatory CPE requirement consists of structured training for forty hours each year (or eighty hours in two years) on matters of relevance to the public accounting profession.

Accountants-Administratieconsulenten (AAs)

21. There are about 3,500 AAs in the Netherlands. AAs, as well as RAs, have the exclusive right to call themselves "accountants." In addition to AAs, various private accounting bodies exist, representing the interests of accounting practitioners who serve basically small and medium-sized companies or special (for example, agricultural) industries. (See paragraph 6 for future changes in the law concerning AAs.)

2

Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

22. In general, the financial statements of Dutch enterprises are audited to meet private or statutory requirements, to meet stock exchange requirements, or because companies are affiliates of international companies. Audits are also performed because audit opinions are requested by lending institutions and for special cases such as acquisitions and investment credit returns.

Purpose of the Statutory Audit

23. According to Dutch legislation (effective in 1984) enacting the EEC Fourth Directive, companies whose annual accounts (financial statements) are required to be audited must appoint an auditor to examine the accounts and express an opinion on whether they present a "true and fair" view. In addition, the auditor is to examine—

a. Whether the accounts comply with legal requirements.

b. Whether the directors' report, insofar as this can be judged, complies with legal requirements and does not conflict with the annual accounts.

c. Whether other information required by law has been properly included in the annual report.

The auditor is required to report any departure in his or her audit report.

Entities Required to Be Audited

24. A mandatory audit requirement exists for the following:

- Medium-sized and large public companies with limited liability (*naamloze vennootschap* [NV])
- Medium-sized and large private limited-liability companies (*besloten vennootschap* [BV])
- Medium-sized and large cooperatives
- Banks
- Insurance companies

25. Small NVs, BVs, cooperatives, and insurance companies do not have a mandatory audit requirement. An enterprise is small if it satisfies two of the following criteria:

a. The value of the assets on the basis of historical cost accounting is no more than Dutch guilders (Dfl.) 4 million.

b. Sales revenue is no more than Dfl. 8 million.

c. The average number of employees is less than 50.

Appointment and Qualifications of Auditors

26. The appointment of auditors for companies with an audit requirement is the responsibility of the members or shareholders at their general meeting. If the appointment is not made by them, the board of supervisory directors is authorized to appoint an auditor; failing this, the responsibility for appointment rests with the board of executive directors (that is, management). There are no restrictions on who can be designated auditor. The designation can, however, be withdrawn at any time by the members or shareholders at the general meeting, or by whoever made the appointment. An appointment made by management may be withdrawn by the supervisory directors. After an auditor is replaced, he or she has the right to address the general meeting of members or shareholders.

27. As noted in paragraph 3, the auditor must be an RA or a person with foreign qualifications who is recognized as such by a special license issued by the Minister of Economic Affairs.

Auditing and Reporting Responsibilities

28. The law requires that the auditor's examination determine whether the annual accounts furnish an insight into whether a reasonable judgment can be formed regarding (*a*) the financial posi-

tion and results of operations and (*b*), as far as the nature of the annual accounts permits, the solvency and liquidity of the company. The auditor's examination must also establish whether the annual accounts follow legal provisions, whether the directors' report is prepared in accordance with the law and is consistent with the annual accounts, and whether the other information required by law has been included.

29. The auditor should present his or her findings to the supervisory board and management. The auditor should communicate the outcome of his or her examination in a certificate (that is, an auditor's report). In mandatory audit situations, the annual accounts cannot be established or approved until the body responsible for doing this has seen the auditor's report. The report should be attached to the annual accounts; if it is not, proper explanation why the audit report has not been submitted should be given.

Filing of Reports

30. An NV and BV is required to prepare its annual report within five months after the balance-sheet date (six months for a cooperative and mutual insurance company) for approval by the general meeting of shareholders or members. The annual report must be filed eight days after approval. The general meeting of shareholders can extend up to six months the time for preparing or approving the annual report (five months for cooperatives and mutual insurance companies). If the accounts are not approved within two months after the extension period, the board of directors must file a draft set of accounts and include an annotation that the accounts have not yet been approved. In any case, the annual report must be filed no later than thirteen months after the balance-sheet date.

31. The annual report—containing the directors' report, annual accounts, and certain other information (including, if applicable, the audit report)—is filed at the office of the Trade Register, which is part of the Chamber of Commerce and basically provides information about Dutch companies to interested parties. The accounts must be signed by all executive and supervisory directors. The date of preparation and approval must be noted on the copy filed; if the accounts have not yet been approved, that fact should be stated.

32. Certain parts of the report (the directors' report and certain other information) may be excluded from filing if they are held for

inspection at the office of the company and if a copy is provided on request at a price not exceeding the cost of producing the copy. If the company decides to use this option, this fact must be reported to the Trade Register.

33. The Minister of Economic Affairs may, in exceptional circumstances, grant an exemption from these requirements. In this case, a copy of the exemption must be filed with the Trade Register.

34. The documents filed are retained for a period of ten years at the Trade Register.

35. In addition to certain preparation exemptions, Dutch law provides certain additional disclosure exemptions for filing purposes for medium-sized and, in particular, small companies. For example, small companies need only file a condensed balance sheet and notes thereto.

36. If the annual accounts are made public in any manner other than that described above, the auditor's report, if available, must be attached. If not, the reasons for its absence must be given. If, however, the annual accounts are published in summary form, the company must report this, but it may not add the auditor's report. At the request of the company, the auditor must state whether his or her report was issued and, if so, describe its general contents. If the report was not issued, the reasons for this should be given.

37. If, after the accounts are approved, it appears that the accounts significantly fail in presenting a true and fair view, the board of directors has the obligation to inform shareholders immediately in the next quarterly report or in another appropriate document. At the same time, a statement to that effect has to be filed at the Trade Register and sent to the "works council."[1] For companies with a mandatory audit requirement, this statement should be accompanied by an audit report.

38. In the Netherlands there is no organization similar to the U.S. Securities and Exchange Commission. All interested parties have the right, after the fact, to challenge the accounts issued in court.

[1]Every company with thirty-five or more employees is required to have a works council. The works council consists of the company's managing director (or his or her representative) and representatives of employees (the number of whom depends on the size of the organization).

Interested parties include shareholders, the works council, and others who can prove that they have an interest in the challenged annual accounts.

SUMMARY OF SIGNIFICANT AUDITING STANDARDS AND COMPARISON WITH U.S. GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

Standards Issued

39. Since 1985 the NIvRA has been in the process of producing a comprehensive set of auditing guidelines, titled Richtlijnen voor de Accountantscontrole. The draft guidelines are presented to the members for comment. After an exposure period and NIvRA Board approval, the standards are issued by the NIvRA and become authoritative pronouncements for RAs and licensed foreign auditors practicing in the Netherlands. Other publications of the NIvRA include auditing opinions (*meningsuitingen*), interpretations of the Official Code of Conduct (see paragraph 13), and topical research studies. A detailed list of these publications is given in appendix A.

40. The NIvRA has also published all the auditing and ethics statements of the Union Européenne des Experts Comptables Economiques et Financiers (UEC) issued to date (UEC Auditing Statements 1–20 and UEC Ethics Statements 1–6), as well as pronouncements of the International Federation of Accountants (International Auditing Guidelines, Ethics Statements of Guidance, and Related Services Guidelines).[2] Although these statements and guidelines do not form part of the NIvRA's official auditing pronouncements, the NIvRA's active role in the formulation of these international standards indicates its general agreement with the basic principles of the standards, which may be, or have already been, incorporated into the NIvRA's own "opinions."

41. No specific mechanism exists at the NIvRA level to ensure adherence to auditing standards other than the promulgation of

[2]In January 1987 the UEC was replaced by the Fédération Européenne des Experts Comptables (FEE).

general or specific standards of performance or conduct, which were mentioned previously. However, the NIvRA has set up a committee that acts as a general monitor of auditors' adherence to the reporting standards. The powers and actions of this committee are consultative only. Any interested party can also file a request or complaint with the Court of Ethics (consisting of independent lawyers and RAs) to review a case.

General Standards

42. Though less regulated, Dutch audit philosophy and practice is conceptually similar to that of the United States. The principal objective of the Code of Conduct is to preserve the integrity, impartiality, and independence required of RAs in their work. The requirement of impartiality and independence is detailed in article 22. This article states that members engaged in public practice may not perform a service for a person, corporate body, or institution if they have any interest therein that may affect their impartiality. Such interest may be a substantial financial interest in, employment with, or directorship of, the enterprise under examination.

Standards of Fieldwork

Review and Evaluation of Internal Control

43. A review and evaluation of internal control is normally performed. The review is documented in the audit work papers, and adverse comments are usually communicated to the client, sometimes orally but most often in writing through use of a management letter. In general, the results of such a review would determine the extent of the audit procedures to be carried out.

Detection of Errors and Fraud

44. In principle, management is responsible for the financial statements and the introduction and maintenance of a proper system of internal control. Auditors are not responsible for fraud (that is, intentional distortions of financial statements) if they have performed their audit with due professional care. Auditors are, however, considered to be responsible for the detection of errors (unintentional mistakes in financial statements) to the extent normal audit procedures can be expected to reveal them.

45. If the auditor becomes aware of errors or fraud, he or she should discuss them with the company's management, supervisory board, or both, and have the error corrected by pointing out management's responsibility and what action must be taken if the correction is not made. If management is not willing to take corrective action against a fraud reported by the auditor, the auditor must withdraw from the engagement.

Observation of Physical Inventory

46. A physical inventory count is normally performed by company personnel and observed by the auditor at least once a year.

Communications With Third Parties

47. Communications with third parties to verify assets and liabilities is an increasingly common audit practice in the Netherlands, though not as customary as in the United States.

Documentation of Evidence

48. Formal audit documentation requirements in the Netherlands are comparable with those in the United States but, given the less aggressive legal environment in the Netherlands, are not implemented as strictly in practice.

Management's or Directors' Representations

49. In the past, written representations from management confirming oral representations were normally not obtained by auditors in the Netherlands, but the practice is becoming more common. Management and the supervisory board acknowledge their responsibility for the annual accounts by signing them.

Reliance on Other Auditors or Specialists

50. When more than one audit firm is involved in the audit of a particular company (for example, when a subsidiary is audited by another firm in a foreign country), the primary auditor (that is, the parent company auditor) would normally issue instructions to the secondary auditor. Due care is required on the part of the primary auditor in accepting the work of the secondary auditor. The primary auditor has the option to review the basic audit and accounting

standards applied; he or she can then refer to the involvement of the secondary auditor in his or her opinion, or perform additional audit procedures to the extent necessary and not refer to the secondary auditor in his or her audit report. In either event, the ultimate responsibility for the opinion expressed on the parent company always rests with the primary auditor. According to new guidelines (see paragraph 57), the primary auditor has the ultimate responsibility for the opinion expressed on the parent company, and he or she has to perform additional audit procedures to the extent necessary. He or she may not refer to the secondary auditor in expressing an unqualified opinion; however, reference to the involvement of secondary auditors may be useful in explaining a qualified opinion or a disclaimer.

51. Local audit firms have traditionally relied heavily on the work of internal auditors. Until recently, many Dutch multinationals had large internal audit departments organized along the lines of a sizable accounting firm. These departments would express an opinion, for internal purposes only, on the company's annual accounts. The external auditor would review the work of the internal auditor and supplement this review with limited procedures to be able to express an opinion on the accounts for external purposes. Now, most internal auditors have ceased their involvement with financial audits and focus primarily on operational auditing, similar to U.S. practice.

52. The work of specialists is used, where required, in determining financial statement amounts. The auditor is required to ensure that any appraisal or opinion from a specialist is valid by assessing the reputation of the specialist and by performing supplementary audit procedures. The specialist may not be referred to in the audit opinion unless (as in the case of actuarial assessments) his or her work is an indispensable and crucial element in drawing a conclusion on the fair presentation of the accounts. According to new guidelines (see paragraph 57), the specialist may never be referred to in the audit opinion, unless reference is necessary in explaining a qualified opinion or a disclaimer.

Standards of Reporting

53. In general, the structure of Dutch standards of reporting on annual accounts is similar to that in the United States.

Standard Form of Report

54. The standard unqualified report typically states the following:

> We have examined the annual accounts of [*company name*] for the year ended [*month, day, year*]. Based on our examination, it is our opinion that the accompanying annual accounts give a true and fair view of the financial position of the company at [*month, day, year*] and the results of its operations for the year then ended.

(See paragraph 57 for new rules pertaining to audit reports.)

55. It should be noted that—

a. Audit reports need not be addressed, the assumption being that the report is meant for any potentially interested party.

b. Adherence to generally accepted auditing standards, accounting principles, and the law is not explicitly referred to, only implied.

c. The report can be signed by an individual in his or her name, the firm's name, or both, if applicable.

d. The report is dated to indicate that the effect on the annual accounts of post-balance-sheet events until that date is included in the opinion. Preferably, the date of the audit report is the same as the date on which the directors signed the annual accounts.

(See paragraph 57 for new rules pertaining to audit reports.)

Departures From an Unqualified Opinion

56. Limited but still significant departures that do not affect the overall fairness of the accounts require a "clean opinion with a qualification." The qualification may indicate either a departure from GAAP ("except for") or an uncertainty ("subject to"), although the specific wording indicating the qualification ("with the reservation") will not make this specific distinction. When the departure or uncertainty does affect the overall fairness, an adverse opinion or a disclaimer will be expressed. In a going-concern situation, a so-called conditional opinion is to be expressed. This opinion closely resembles a "subject to" opinion, but within Dutch reporting standards, it is seen as a clean opinion. The opinion is conditional upon the assumed validity of the underlying assumptions of going concern, as described in the notes to

the accounts. Finally, formal (mainly disclosure) departures from the law must be referred to in the audit report. These departures, insofar as they do not necessarily affect the fairness of the accounts, do not have to lead to a qualification as such.

Recent Developments

57. The situation described in paragraphs 54–56 will change as a result of discussion in the Netherlands on the subject of the audit report. New rules, passed in December 1990, are applicable for 1991 annual reports, although earlier application is expected. The new rules include the following changes:

a. An explicit distinction will be made between uncertainties in the audit and uncertainties related to the annual accounts. Uncertainties in the audit will, depending on the importance of the uncertainty, lead to a "subject to" opinion or a disclaimer. Uncertainties in the annual accounts will lead to an unqualified opinion when these uncertainties are adequately disclosed in the annual accounts. If they are not, the uncertainties become objections and they will lead, depending on the importance of the uncertainty, to an "except for" opinion or an adverse opinion.

b. The wording of the standard unqualified report will be changed by an explicit reference to generally accepted auditing standards (the auditing guidelines published by the NIvRA) and to the applicable statutory regulations. The unqualified report no longer contains a reference to other auditors or specialists (see paragraphs 50 and 52). The standard unqualified opinion contains the following new wording:

> We have audited the financial statements of [*company name*] in [*place of business*] for the year [*year*]. We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. In our opinion, these financial statements give a true and fair view of the financial position of the company at [*balance-sheet date*] and of the result for the year then ended and also comply with the other Dutch legal requirements for financial statements.

c. In the unqualified report, formal departures from the law must still be referred to in the audit report. Furthermore, an "emphasis of a matter" could be added in order to emphasize uncertainties of a material or fundamental importance related to the annual accounts. Those uncertainties should be adequately disclosed in the annual accounts. The conditional opinion in going-concern situations will disappear. In these situations, the auditor should add an "emphasis of a matter," emphasizing the going-concern uncertainty.

d. The clean opinion with a qualification will also disappear. Instead, an "opinion with limitation" (which is not a clean opinion) is introduced. This opinion with limitation has two manifestations: the "subject to" opinion, to be used for uncertainties in the audit, and the "except for" opinion, to be used for objections of material importance to the annual accounts.

e. A disclaimer is used in the case of serious uncertainties in the audit. A "negative assurance" may be included in the standard wording of a disclaimer.

f. An adverse opinion is used when there are objections of fundamental importance to the annual accounts.

Audit-Related Services

58. The current Code of Conduct does not allow other than a full-scope audit. Balance-sheet-only opinions may only be expressed when a new audit for a formerly unaudited company is accepted. However, there are situations in which the client wishes to use the expertise of the auditor and does not need the assurance related to an audit engagement. In these situations, the Code of Conduct requires the financial statements, or each part that can be independently used, to be clearly labeled "unaudited." A piecemeal opinion (that is, an opinion on part of a financial statement) and an opinion on the basis of a limited review are not allowed.

59. Current proposals of the NIvRA introduce the concept of "audit-related services." Through such services the auditor will be able to express positively what he or she has done. Audit-related services (for example, the evaluation of interim financial statements) can be offered not only to large companies but also to small companies that have no mandatory audit requirement. Some companies are normally too small to set up a proper system of internal control, and when a full-scope audit is performed, a disclaimer of opinion will result year after year. Offering audit-related services is considered to be a useful alternative for small companies.

60. The following audit-related services are distinguished:

- Review of financial statements
- Agreed specific assignments
- Compilation of financial statements
- Other assignments

From the formulation of the opinion related to a review of financial statements, it should be clear that the certainty for users of the reveiw opinion is restricted in comparison to a full-scope audit. In the case of a specific assignment, the degree of certainty expressed in the opinion is dependent on the nature of the assignment; in the case of compilation of financial statements, the auditor may not express to users any certainty related to the financial information as a whole.

3

Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

61. Since 1970, Dutch accounting principles have been codified in the Accounting Law. This law has been amended and extended with the implementation of the EEC Fourth and Seventh Directives. Another source of accounting principles are the guidelines for accounting and reporting, published by the Council for Annual Reporting.

62. Though not mandatory, the accounting and reporting guidelines form an important, authoritative source of interpretation of the law for business and general use, as well as for use by the Enterprise Court. Reasons for any departure from the guidelines must be well-founded.

63. The IASC is also a source of accounting principles, since the NIvRA participates in the IASC and endeavors to gain acceptance of IASC standards in the Netherlands. Several of these standards have been incorporated into the guidelines of the Council for Annual Reporting.

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

64. The annual financial report includes an executive directors' report and annual accounts in the form of a balance sheet, an income

statement, notes, and other prescribed information. A company that is considered to be the head of a group (or a part of a group) should present its own financial information and that of the group (or the relevant part of the group) in consolidated form. A *group* is defined as those companies that form an economic unity under common control. The obligation to prepare consolidated statements exists in addition to preparing the primary legal accounts of the company itself.

65. An individual company is exempted from preparing full legal accounts if certain criteria are met. The most important criteria are as follows: simplified statements are prepared, there is agreement among shareholders, the accounts are included in the consolidated accounts prepared in accordance with the EEC Seventh Directive, and the company preparing the consolidated accounts has guaranteed the liabilities of the company being exempted.

66. A company that is considered to be the head of a part of a group (an intermediate holding company) is exempted from preparing consolidated accounts if certain criteria are met, the most important of which are the following: The shareholders agree, the accounts of the company and of the companies that should have been consolidated are included in the consolidated statements of a larger part of the group, and these consolidated statements are prepared in accordance with the EEC Seventh Directive or, when this directive does not apply, in an equivalent way. The consolidated accounts must be filed at the Trade Register.

67. Standard formats for the balance sheet and profit-and-loss account, predicated upon Fourth Directive formats, have been established by governmental decree. The law establishes the main structure of, and the details required to be disclosed in, the balance sheet and profit-and-loss account. In addition, the law includes disclosure provisions for the footnotes and contains a special section for valuation principles.

68. The annual accounts and the consolidated accounts may be expressed in a foreign currency, if use of a foreign currency is justified by the international status of the group or by the activities of the company.

69. The items of the annual accounts should be described in Dutch, unless the general shareholders meeting approves the use of another language. The annual report filed must be in Dutch, English,

French, or German. It should be noted that certain interested parties such as the works council have the right to receive the annual accounts and report in Dutch even if the accounts and report are prepared or published in another language.

Types of Statements Prepared

70. The extent of the information required by law to be included in the annual accounts as prepared for approval by shareholders and for public filing depends primarily on the size of the company, as does the question of whether the accounts need to be audited. Companies are categorized for these purposes as small, medium-sized, or large. Small and medium-sized companies are defined as companies that are not engaged in insurance or banking (for which there are special financial reporting provisions) and that satisfy at least two of the following three criteria:

	Small Company	*Medium-Sized Company*
	Amount or number not in excess of—	
a. Value of assets on the basis of historical cost accounting according to balance sheet and notes	Dfl. 4 million	Dfl. 17 million
b. Net turnover (sales) for the year	Dfl. 8 million	Dfl. 35 million
c. Average number of employees during the year	49	249

71. The foregoing criteria are based on consolidated amounts, including all group companies that would have been consolidated if consolidated statements had been prepared. (If an intermediate holding company is exempted from preparing consolidated accounts, these criteria must be based on statutory, rather than consolidated, account amounts.) The criteria are subject to periodic adjustment. A company moving up or down one category continues to be subject to the legal requirements for its previous category in the year in which its status changes.

72. All other companies, including those engaged in insurance or banking, are defined as large companies.

73. The requirements for each category can be summarized as follows:

	Large	*Medium-Sized*	*Small*
Preparation	Executive directors' report; full balance sheet, income statement, and notes thereto; full other information, including audit report	Executive directors' report; full balance sheet, condensed income statement, and notes thereto; full other information, including audit report	Executive directors' report; condensed balance sheet, income statement, and notes thereto; limited other information; no consolidated accounts
Filing	Full, as above	Executive Directors' report; condensed balance sheet, income statement, and notes thereto; limited other information, including audit report	Abridged balance sheet and notes thereto only
Audit	Yes	Yes	No

The Executive Directors' Report

74. The executive directors' report should refer to (*a*) the results of operations for the year, (*b*) the company's position at the balance-sheet date, and (*c*) developments of special significance that have arisen since the end of the accounting year. Furthermore, the report should include expectations about the future course of business, giving special attention to finance, investment, personnel, and developments that affect sales, profitability, or both, unless significant circumstances prevent their disclosure. In addition, activities in the area of research and development should be included. The information given in the

executive directors' report should not conflict with the information given in the annual accounts.

Other Information

75. In addition to the executive directors' report, balance sheet, income statement, and related footnotes, the following information should, where applicable, be included with the annual accounts:

a. The auditor's report
b. A statement on regulations concerning the appropriation of profit or the treatment of loss in accordance with the company's articles of incorporation
c. A statement on the actual or proposed appropriation of profit or the treatment of losses
d. A statement on the articles-of-incorporation regulations concerning the contribution toward defraying the deficit of a cooperative association or mutual guarantee company, when these regulations differ from statutory rules
e. A list of the names of those in whom a special right of control of the company is vested by the company's articles of incorporation, and a description of those rights
f. A description of any third-party rights to a share in the profits or similar obligations
g. A statement on any events that have arisen since the fiscal year and that have important financial consequences, with an indication of the extent of those consequences

The inclusion of a statement on the source and application of funds in the annual accounts is recommended by the guidelines of the Council for Annual Reporting, but such an inclusion is not mandated by law.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND COMPARISON WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

76. The Dutch legislature and guidelines on accounting and reporting refer to "generally acceptable accounting principles," rather

than "generally accepted accounting principles" as in the U.S. This shows that the Dutch basis of accounting and reporting is somewhat less rigid and more conceptual and interpretational. The Dutch accounting profession does allow the use of current value and, in general, replacement value to provide an important measure of financial position, income, and rates of return in addition to—or as a substitute for—historical cost. Relatively few Dutch companies have adopted current values in their primary external reporting, but many now include such data as supplementary information.

Valuation Principles

77. Dutch law permits a choice between current value and historical cost accounting. The current value is normally the replacement value. The primary principle here is that the accounts should give a true and fair view. In general, the true-and-fair-view concept necessitates disclosure of current value information in the case of material differences between current value and historical cost. When the primary accounts are based on historical cost, current value information should be given in the notes to the accounts. When the primary accounts are based on current value, supplementary information should be given about the related revaluation accounts. The law does not allow the application of current value to intangible fixed assets and to current assets other than inventories.

78. The most important criterion with respect to valuation of assets and liabilities is the stipulation to provide a clear insight based on overall fairness and consistency. In applying valuation principles, the prudence concept should be used as well as the continuity concept (or "going concern" assumption). If the latter is known to be incorrect or is seriously doubted, this fact and its influence on equity should be reported in the notes to the accounts.

79. In the determination of the results of operations, the same basic principles should be used as in the valuation of assets and liabilities. In addition, the realization principle should be employed: profits should only be included in the results when they are realized before the balance-sheet date. Losses and risks that originate in the accounting year should be reported as soon as they are known, whether or not they have been realized.

80. Valuation at historical cost means valuation at acquisition cost (that is, the purchase price and any accompanying costs) or manu-

facturing cost (that is, the procurement costs of raw materials and consumables used and other costs that are directly attributable to manufacture). In addition, a reasonable portion of indirect costs and any interest expense incurred during the period of manufacture may be included. In the latter case, the notes to the accounts should disclose that such interest has been capitalized.

81. Inventories as well as tangible and financial fixed assets can be valued at current values. Valuation at current value is discussed in a separate decree based on article 384, paragraph 4, of the Dutch Civil Code.

Inventories

82. Inventories are required to be stated at the lower of cost or market value, similar to the requirements under U.S. GAAP. The full-costing method is generally applied and costs may include finance costs. The following features of accounting principles generally accepted in the Netherlands, however, contrast with those in the United States:

- Inventory may be valued at replacement cost, whereby the revaluation is included in a revaluation reserve (a legal reserve that is normally built up after the recognition of related tax effects). The replacement cost method is allowed for financial accounting purposes, but it is not allowed for tax purposes.
- It is strongly recommended that the replacement value be disclosed in a footnote if inventory is valued at historical cost and the difference in value is material.
- The last-in, first-out (LIFO) method may be used to determine cost of sales, as in the United States, provided that the balance-sheet valuation is at replacement cost or, at least, there is disclosure of the replacement cost in the footnotes, if the difference is material.
- As to LIFO, the use of the base-stock method is allowed according to the Dutch guidelines, provided that there is proper disclosure of the replacement cost if it is materially different.

Property, Plant, and Equipment; Depreciation

83. Property, plant, and equipment are normally stated at historical cost, less accumulated depreciation or amortization. Operating property, plant, and equipment may be written up to replacement value, less possible provisions for permanent diminutions in value.

The difference between historical cost and revaluation value is treated as a revaluation reserve. If a building has been revalued, depreciation, for accounting purposes, must be based on the revalued amount. This contrasts with U.S. GAAP, which does not allow the write-up of book value of property, plant, and equipment to reflect appraisal, market, or current values in excess of cost, except in connection with certain defined reorganizations or quasi reorganizations or in the context of acquisition accounting.

84. Depreciation methods in use in the Netherlands are similar to those in the United States.

85. Accounting principles in the Netherlands with respect to the capitalization of interest on property, plant, and equipment are similar to those in the United States.

Marketable Securities

86. Marketable securities held as current assets are stated on the balance sheet at the lower of cost or market value, similar to U.S. GAAP. In some cases, however, companies in the Netherlands also recognize in income/loss for the period (*a*) diminutions in the value of current marketable securities that occur subsequent to the balance-sheet date or (*b*) realized losses on disposal of current marketable securities subsequent to the balance-sheet date. Furthermore, when the securities can be sold immediately, the Council for Annual Reporting considers it acceptable to make an upward revaluation to a market value that is higher than the historical cost.

87. Long-term marketable securities are generally stated at cost, less any permanent diminution in their value, which should be charged to income. However, some companies in the Netherlands also recognize in income temporary diminutions in the value of long-term marketable securities to the extent that they have occurred up to the balance-sheet date. Another exception to the basic valuation rule relates to mutual funds, which, under certain conditions, may value their investments at market value, with changes in valuation charged directly to reserves.

Research and Development Costs

88. Both the law and the guidelines for accounting and reporting in the Netherlands allow, but do not require, capitalization of research

and development costs. The guidelines state that capitalization is only permitted when the following criteria are met:

a. A detailed description has been made of the product and process.

b. The costs to be allocated can be determined.

c. Proof exists of technical feasibility.

d. The new product or process will be placed on the market.

e. There is a clear potential market or beneficial use.

f. It is financially feasible to complete the development process.

89. The economic feasibility of the projects for which costs are capitalized must be assessed every year. Research and development costs that are capitalized must, by law, be amortized within five years. A shorter amortization period is required if the related benefits accrue over a shorter period of time. A legal reserve for capitalized research and development costs has to be set up out of free reserves. This nondistributable reserve can be released to distributable reserves simultaneously with the amortization of research and development costs. Full disclosure has to be made of the accounting policy applied, including the nature of the research and development costs capitalized, and of movements (changes) in the asset value during the year.

90. To the extent that research and development costs meet the foregoing criteria and are capitalized, this accounting treatment would contrast with U.S. GAAP, which basically requires research and development costs to be expensed as incurred. (However, U.S. GAAP allows the capitalization of research and development costs incurred on computer software development beyond the development phase when the technological feasibility of the product has been demonstrated.)

Long-Term Construction Contracts

91. Accounting principles in the Netherlands with respect to long-term construction contracts are basically similar to those in the United States.

Accounting for Deferred Income Taxes

92. According to the guidelines, deferred income taxes are normally accounted for by the liability method and are predominantly based on the comprehensive allocation concept. One difference from U.S. GAAP is that partial allocation, or no allocation, is not strictly forbidden by Dutch law. However, it is seldom applied. In the Netherlands no

distinction is made in the income statement between deferred and current tax charges/credits.

Government Subsidies

93. In the Netherlands a wide variety of semigovernmental subsidies exists, which are not accounted for as tax credits but rather as deferred income (recognized in the income statement on the basis of related costs) or as direct credits to the project costs incurred.

Pension Costs

94. Accounting principles governing the accounting for pension costs are not as extensive in the Netherlands as they are in the United States. The basic principle is that unconditional liabilities should be provided for and contingencies should either be provided for or fully disclosed. In the Netherlands there are no specific accounting requirements concerning plan changes and changes in plan assumptions, the actuarial methods that are permitted, and the discount rate that should be used in valuing the obligations.

Inflation Accounting

95. In the Netherlands the law allows the presentation of primary financial statements on the basis of either historical cost or current value. Current value applies mainly to inventories and, in particular, to fixed assets. When the primary accounts are based on historical cost, current value information should be given in the notes to the accounts. When the primary accounts are based on current value, supplementary information should be given about the related revaluation accounts. Current-purchasing-power accounting or constant-dollar accounting are not acceptable in the Netherlands.

Contingencies

96. Accounting principles in the Netherlands with respect to the treatment of contingencies are similar to those in the United States.

Leases

97. Accounting principles in the Netherlands with respect to leases are similar to those under U.S. GAAP; however, the distinction

between capital and operating leases is not as clearly defined. If the lease agreement indicates economic ownership, it would be considered a capital lease.

Business Combinations or Acquisitions

98. There are no legal provisions or recommended accounting standards regarding the accounting for business combinations or acquisitions. Both the pooling-of-interests and the purchase methods are allowed, but the purchase method predominates. The principles followed in applying either method are similar to those under U.S. GAAP.

99. In the Netherlands, goodwill is either capitalized and amortized in the income statement over its useful economic life or written off immediately against equity or earnings at the date of acquisition. If goodwill is capitalized, there is no defined maximum period of amortization. (In the United States there is a maximum period of forty years.) However, if the amortization period exceeds five years, an explanatory note regarding the period chosen is required.

Equity Accounting

100. For long-term investments in affiliated companies (those companies on which a significant influence on business and financial policy is exercised) the equity method should be used. An investment is presumed to be one in an affiliated company when 20 percent or more of the voting rights are held. For long-term investments in other companies, valuation at historical cost or current value is required.

Segment Reporting

101. Dutch companies are required by law to report revenues and total staff size by nature or organization of the business as well as by geographical areas. This can be done with a breakdown in percentages rather than with actual figures. The organization of business and geographical areas is not further defined by the law. These requirements are significantly less extensive than those under U.S. GAAP, which specifies the criteria for the determination of reportable segments and the disclosure of revenue, operating profit, identifiable assets, depreciation, capital expenditures, export sales, major customers, and so forth.

Foreign Currency Translation

102. Accounting principles in the Netherlands with respect to foreign currency translation are not defined by law but are covered by the guidelines. The relevant guideline does not specifically address the concept of *functional currencies*, as in Financial Accounting Standards Board Statement No. 52, *Foreign Currency Translation*, but this concept is implied. The determination of whether a foreign operation forms an integral part of the parent's operations is based on the relationships between the cash flows of the foreign operations and those of the parent. This determination need not be made for all foreign operations. For practical reasons, it is acceptable to make the determination for the most significant foreign operation and apply the resulting rules to the total group. This provision is not contained in U.S. GAAP.

103. Accounting principles in the Netherlands for foreign currency transactions, as outlined in the guidelines, are similar to U.S. GAAP except that (*a*) exchange gains on long-term monetary items may be deferred and amortized to income over the period of the item and (*b*) exchange losses on loans may be set off against deferred gains. Alternatively, they may be taken to income, as is required under U.S. GAAP.

Legal Reserves

104. In certain situations or for certain transactions, legal non-distributable reserves have to be set aside out of current profits or distributable reserves. These legal reserves are important in the context of establishing the availability of profit distributions and also for entering into certain legal transactions, such as the purchase by a company of its own shares. Legal reserves have to be distinguished in the accounts as to nature and origin. Dutch law recognizes the following types of legal reserves:

- Legal minimum (revaluation) reserve
- Undistributed profits of subsidiaries, accounted for on the equity method unless the profits can be distributed on the authority of the parent company and received without limitations
- Guarantee reserves for (unaudited) payment in kind of issued shares
- Capitalized share-issue costs
- Capitalized research and development costs

- Legal reserve in the context of loans supplied for the purpose of acquiring shares in a limited private company (BV)
- Reserve for a shortfall in minimum paid-up capital (BV)

Interim Reporting

105. In the Netherlands quoted public limited companies are required to publish half-year figures; most publish quarterly figures. There is currently no requirement for an auditor's involvement in interim reporting. The Amsterdam Stock Exchange (the "Stock Exchange") regulations include some general guidance regarding the minimum contents of the interim report. Moreover, there is a legal requirement for listed companies that every material post-balance-sheet or post-report-issuance event be reported immediately. For companies with a mandatory audit requirement, this report must be audited and filed with the Trade Register.

Transactions Resulting in Direct Charges or Credits to Equity

106. It should be noted that Dutch financial accounting and reporting guidelines conditionally allow certain specific, nonrecurring, or exceptional accounting occurrences having a material effect to be charged/credited directly to equity. Such occurrences would include the following:

- Goodwill/negative goodwill paid or received upon the acquisition of participating interests
- The effect of nonrecurring improvements to an employee pension plan, if the effect is substantial
- Exceptional gains or losses resulting from a financial reorganization
- Deferred tax gains or losses resulting from a change in tax rate
- Exceptional losses of property through nationalization or destruction of noninsurable assets
- The cumulative effect of changes in accounting principles (recording this effect directly in retained earnings is preferred over recording it as a part of extraordinary income)
- In the case of investments in independent foreign entities, translation gains and losses on the equity of the investment (recording these gains and losses directly in equity is required)

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

Entities With Corporate Attributes

107. An enterprise can operate in the Netherlands in the form of a separate legal entity or as an operation of entrepreneur(s). Enterprises with a separate legal entity are usually formed for purposes of limited liability. These may take the form of either a public limited company (*naamloze vennootschap* [NV]) or a private limited company (*besloten vennootschap* [BV]).

108. The NV and BV are legal entities possessing many of the legal characteristics of a U.S. corporation and U.S. "closed" corporation, respectively. They can sue, be sued, enter into contracts, and transact business. The stockholders have no liability for company debt beyond their capital subscriptions. There are no nationality requirements for shareholders or directors. Formation requires the founder (or founders) of the company to appear before a notary and obtain Ministry of Justice approval of the articles of incorporation. The incorporated company must also be registered with the Trade Register of the Chamber of Commerce. A BV cannot sell its shares on the Stock Exchange or offer them for public subscription. Transfers of shares can only take place in accordance with related clauses in the articles of incorporation. Share certificates of an NV may be registered or bearer. All bearer shares must be fully paid up. Preferred or common stock may be issued, and different par values are permitted for different classes of stock. Stock with no par value is not permitted.

109. For an NV, the minimum paid-up capital is Dfl. 100,000; for a BV formed after January 1, 1985, it is Dfl. 40,000. BVs formed before that date require a minimum paid-up capital of Dfl. 35,000.

110. "Structure companies" are those that have share capital and reserves of Dfl. 22.5 million or more and that employ, directly or indirectly, at least 100 persons in the Netherlands. Such companies must have a supervisory board of at least three members. The law has given such boards extensive powers that otherwise would be in the hands of shareholders. Structure companies controlled from outside the Netherlands, however, are different; the supervisory board is not empowered by law to appoint the management board or approve the annual accounts. These functions remain at the general meeting of shareholders.

111. Although a smaller company is not required by law to have supervisory directors, the articles may require their appointment and must provide for the appointment of executive directors.

112. Many companies have a two-tier management structure consisting of a supervisory board and a management board. The supervisory board is a collective body whose joint powers are usually contained in the articles; its duties are supervisory and advisory except in areas for which the company's statutes or the law give it additional powers. Supervisory board members are initially appointed by the shareholders. Vacancies are filled by appointment by the supervisory board from a list of nominees from shareholders, the works council, and the management board. In smaller companies, vacancies on the supervisory board are filled by appointment by the shareholders. The management board is responsible for the daily management of the company, and it legally represents the company. It is independent from the supervisory board and the shareholders, except when approval is required for certain acts as stated in the company's articles.

113. Each member of the management board can represent the company. The representation authority in the statutes may be restricted by (*a*) setting the minimum number of management board members required to act jointly, (*b*) specifying that only management board members with defined functions may act, or (*c*) both *a* and *b*. The representation authority of the management board and its members cannot be limited to specific subject matters.

114. Every enterprise in the Netherlands with more than thirty-five employees must establish a "work council" (*ondernemingsraad*) with advisory rights on some labor matters (for example, training) and decision-making rights on other matters (for example, safety measures). The purpose of the works council should be seen in the context of the

spirit of cooperation that the Dutch legislature aims to establish between what are referred to in the Netherlands as the "social partners": employers on the one hand and employees and employees' organizations on the other. The most far-reaching right of the works council in "structure companies" (see paragraph 110) is its role in recommending candidates for the supervisory board and its right to object to nomination proposals by the shareholders or management board. (If appealed, however, the objection can be overruled.) Further, the works council has the right to be involved when structural reorganizations and mergers are proposed.

Frequency of Shareholder Meetings

115. A general meeting of shareholders is required to be held annually. Additional meetings may be called as prescribed by the company's articles.

Liabilities of Incorporators, Shareholders, and Board Members

116. The principle of a company separate from its incorporators, shareholders, and board members applies to the NV and BV. Certain inroads into this principle have, however, been made. Now there are obligations for incorporators and shareholders when shares have not been issued for cash. Safeguards have been instituted regarding the value of the assets exchanged for shares as of the date of the exchange. The following far-reaching liabilities exist for members of the supervisory boards and management boards:

a. When a company subcontracts to another company, the main contractor can be held liable under certain circumstances for the unpaid social security premiums and taxes of the subcontractor. This liability also falls upon the board members unless they can show that they have acted properly (*wet ketenaansprakelijkheid*).

b. If a company cannot pay its social security premiums and taxes, management board members are liable unless they can show that they acted properly as board members. Failure to produce or file proper annual accounts is an indication that one has not properly performed his or her duties as a board member.

c. If a company is liquidated, board members are liable for deficits to creditors if the insolvency is caused by improper management, unless a board member can show that he or she has acted properly.

d. Management will be held liable in the case of illegal transactions.

Branch of a Foreign Company

117. A foreign branch must register with the Chamber of Commerce and file certain information on both itself and its foreign parent, including the parent's articles of incorporation. The foreign parent is responsible for all obligations of the Dutch branch.

Partnership Entities

118. General and limited partnerships in the Netherlands exist on bases similar to those in the United States. In a general partnership (*vennootschap onder firma*), all partners have unlimited liability and there are no capital requirements. There are no nationality requirements for partners, who may be individuals or commercial entities. No partner can limit or avoid joint and several liability for partnership debts. The partnership agreement, which may be an informal document, need not be filed, although the name, purpose, and location of the partnership must be filed with the Trade Register of the Chamber of Commerce. Partnerships are not required to publish their financial statements or make them available for public inspection.

119. Limited partnerships (*commanditaire vennootschap*) are governed by the same rules as, and are similar to, general partnerships, except that in addition to general partners, they include limited partners who are liable only to the extent of their respective capital contributions. A limited partner's name cannot be included in the partnership's name, and he or she can take no part in its management. If these conditions are not met, the partner will be regarded as a general partner.

Other Forms of Business Organization—Sole Proprietor

120. If the legal structure of a corporation is not used and the business does not operate in the form of a partnership entity as described previously, business operations will be treated as part of the owner's assets and liabilities. These include all the claims, tangible goods, and intangible goods of the operation as well as its responsibilities and obligations. The owner is the ultimate employer and manager, whether or not he or she resides locally or is represented locally. The business must be registered with the local chamber of commerce. There are no requirements regarding the audit or filing of annual accounts. For tax return purposes, the operations are included in the tax return of the sole proprietor.

REQUIREMENTS FOR PUBLIC SALES OF SECURITIES AND REQUIREMENTS FOR LISTING SECURITIES ON THE STOCK EXCHANGE

Registration Requirements for Public Sale

121. All security transactions, including public sales, must be executed through a stockbroker unless an exemption has been obtained from the Ministry of Finance. An exemption is always granted for acquisition by means of a takeover of shares. Since July 1990 securities transactions are no longer subject to the Stock Exchange tax.

Requirements for Listing Securities on the Stock Exchange

122. The Stock Exchange is organized by the Vereniging voor de Effectenhandel (Association for Securities Trading). Persons entitled to be engaged in the brokerage of securities can be members of the association.

123. A company wishing to have its shares quoted on the Stock Exchange usually does so with the assistance of one of the General Banks, which are all members of the Association for Securities Trading. The requirements regarding disclosure and documentation are contained in the Fondsen-Reglement (Stock Exchange Regulations). Regarding introductions or new issues, the Stock Exchange stipulates that a prospectus shall be published and that it must fairly present the state of affairs of the issuing organization as of the balance-sheet date of the last financial year for which annual accounts have been published. The prospectus shall also contain information on events of special significance that have taken place after the balance-sheet date. In addition, prospective information comparable with that required for the directors' reports accompanying annual accounts shall be included.

124. The prospectus must also include, at a minimum, the following information:

- The company's history
- The name and address of the company
- The names of members of the supervisory board and management board
- The date of the company's formation

- The authorized issued capital and changes in capital accounts since formation
- The latest annual accounts
- Three years of comparative figures for the balance sheet and income statement
- Preferably, the consolidated and unconsolidated accounts (one of the two can be omitted only by special permission of the Stock Exchange regulatory authorities)
- Earnings and dividends per share and a statement of source and application of funds for the last three years
- Relevant data on significant subsidiaries
- Sundry other information relevant to the ultimate assessment of solvency, liquidity, earnings, and earnings capacity of the company or group

125. Information must also be supplied about the company's auditors for the last three years, including the nature of their reports and the nature of any qualifications therein. Other informational and procedural requirements, and possible exemptions to them, are set out in the Stock Exchange Regulations.

126. Similar information—but somewhat less extensive—must be supplied for companies seeking quotation on the "parallel market," which is similar to the U.S. "over the counter" market.

127. The issued share capital of a company intending to be quoted must be at least Dfl. 2.5 million. Shares must be fully paid up and be issued to the bearer. For quotation on the parallel market, a company must list a minimum of 10 percent of its issued share capital.

128. The accounting and auditing provisions stipulate that the issuing organization will make its annual accounts, directors' report, and, if applicable, first-half-year results available to the public on an ongoing basis. The accounts should conform with EEC requirements; if they do not, supplementary information should be supplied to conform with the overall EEC accounting provisions. As a rule, consolidated and unconsolidated data should be supplied. The annual accounts must be audited. The semiannual accounts do not need to be

audited, but if an audit has been carried out, the report should be included in the publication.

129. Quoted companies are obliged to keep the public informed of any major developments that may have a significant influence on the price of their securities.

SELECTED ECONOMIC DATA

130. Key demographic and social factors, based on estimated 1990 Netherlands census data, follow.

Area (square kilometers)	41,574
Population (in millions)	15.009
Annual population increase	0.78%
Percentage of population under age 20	25.2
Percentage of population aged 65 and over	12.9
Labor force (in millions)	6.955
Percentage of women in labor force	38.8
Unemployed (in thousands)	345
Number of students in universities (in thousands)	178

131. The major Netherlands trading partners, as of 1989, are as follows:

	Exports (Dfl. millions)	*Imports (Dfl. millions)*
Germany	59,176	56,903
Belgium and Luxembourg	33,553	31,265
Other EEC countries	79,972	51,434
Other European countries	20,516	21,312
Asia	12,784	27,380
United States and Canada	11,940	20,421
Other	9,809	12,636
Total	227,750	221,351

132. Dutch primary export and import products, as of 1989, in percentages of total exports and imports, are as follows:

	Exports (%)	*Imports (%)*
Machines and transportation	23	30
Chemicals	18	11
Food and livestock	18	10
Manufacturing	15	17
Energy-related products	9	10
Nonconsumable raw materials (except energy-related products)	6	9
Other	11	13
	100	100

TAXES

Principal Types

133. The principal taxes in the Netherlands include the corporate income tax, value-added tax, real estate transfer tax, capital tax, personal income tax, wealth tax, and dividend withholding tax. In addition, national and employment social security contributions are made.

Corporate Tax

134. Resident corporations, both NVs and BVs, are taxed on worldwide income. In calculating taxable income, deductions are permitted for the following: necessary operating expenses, management fees, interest, royalties, license fees, bad debts, all domestic taxes except the corporate income tax, contributions to pension funds, insurance premiums, depreciation of fixed assets, contributions to bona fide charities, and amortization of intangible fixed assets. Since 1989, however, the deductibility of "mixed expenses" has been restricted. Mixed expenses are expenses that have both a business and private element (for example, business gifts, study tours, conference costs, and canteen facilities). Capital gains are considered to be ordinary profits and are taxed accordingly except when the "participation exemption" (see paragraph 137) applies. Taxation of capital gains on tangible and

intangible fixed assets can normally be deferred if the sales proceeds are reinvested in new similar assets. Reinvestment should usually occur within four years after the disposal date. Resident taxpayers include—

- Limited liability corporations (both NVs and BVs).
- Mutual guarantee companies or insurance companies.
- Certain other associations carrying on a trade or business.

Such entities are always deemed to be corporate taxpayers if they are established in the Netherlands.

135. Nonresident corporate taxpayers are those entities that have capital wholly or partly divided into shares and that are not established in the Netherlands but receive Dutch domestic income. The location of the management of a foreign incorporated company operating in the Netherlands determines whether a foreign legal entity is considered to be established in the Netherlands. A subsidiary incorporated in the Netherlands and wholly owned by a foreign legal entity is, in principle (depending on treaties), deemed to be a Dutch-resident corporate taxpayer, irrespective of where its management is located. Nonresident corporate taxpayers are liable for corporate income tax on specific source income, which includes (*a*) business income from a permanent establishment or (*b*) real property and mortgages on such property located in the Netherlands.

136. The tax rate for profits on corporate income is 35 percent (but 40 percent on the first Dfl. 250,000). The Netherlands uses the classical system of corporation tax. Therefore, the profits are taxed at the same rate whether or not distribution takes place. The shareholders do not receive any credit for the corporation tax levied on profits from which they receive dividends. There is a withholding tax of 25 percent on dividends. Dividends paid to stockholders in countries with which the Netherlands has double-tax treaties are either exempt or subject to a reduced withholding rate. There are no withholding taxes on interest, royalties, or technical assistance fees.

137. To avoid double taxation between corporate entities, benefits derived from participation by a Dutch corporate taxpayer in at least 5 percent of another domestic or foreign corporation are not taxed by virtue of the "participation exemption." The participation exemption applies not only to the dividends received from subsidiary companies but also to the possible capital gains on the sale of the shareholdings. However, the capital losses that may result from a sale of the

investments will not constitute a tax-deductible item, but capital losses can be deducted if realized on liquidation of a subsidiary. In case of foreign participation, the relevant corporation must be subject to a tax on its income. The participation exemption does not apply if the investment is held as a portfolio investment or as inventory.

138. The filing of a consolidated tax return ("fiscal unity") is available to corporations within one group upon application to the tax authorities. The advantages of this are that the profits and losses of companies within the group incurred during the existence of a fiscal unity can be offset. The requirements for forming a fiscal unity are as follows:

- The parent company and the subsidiaries must be resident limited liability companies incorporated in the Netherlands.
- The parent company must hold all of the issued shares in the subsidiaries.
- The fiscal years of the companies must be the same.
- The companies are subject to the same tax regulations.

139. The income of foreign branches of Dutch corporations is not ordinarily subject to Dutch income tax.

140. Branches of foreign corporations are taxed as corporations but only on their Netherlands-source income. There is no withholding tax on remittances to home offices.

141. A limited partnership in which the interest of a limited partner may be transferred without the consent of other partners is taxed as a corporation, and partnership distributions are considered dividends. If the transfer of ownership interest does require the consent of other partners, the partnership is treated as a general partnership for tax purposes. A general partnership is not a taxable entity; each partner is taxed on his or her share of the partnership profits, whether or not they are distributed.

Value-Added Tax

142. The Dutch value-added tax (VAT), a multistage and noncumulative tax, is levied on all services rendered and on sales of goods, with each seller crediting taxes paid against taxes due. Although the VAT does not apply to exports, all imports are subject to the VAT upon their arrival in the Netherlands. The VAT is levied generally at 18.5

percent, with a special 6-percent rate for basic foodstuffs and basic services. Certain services are exempt (such as education, insurance, and banking). Foreign businesses can apply to the tax inspector for a refund of the Dutch VAT charged even if they have no operations in the Netherlands.

Real Estate Transfer Tax

143. A transfer tax of 6 percent is levied on real estate sales. In addition, there are annual municipal real estate taxes.

Capital Tax

144. Corporations are subject to a capital tax of one percent of paid-up capital upon issue. The tax is levied on the value received by a company on the issue of its shares. Therefore, share premiums are usually also subject to this tax; dispensations and exemptions exist in cases of mergers and reorganizations.

Income Taxes on Individuals

145. Residents of the Netherlands are taxed on worldwide income, but nonresidents are taxed only on Netherlands-source income. Resident status depends on the circumstances, such as the nature and length of an individual's stay in the Netherlands, whether he or she has established a dwelling place in the country, and whether he or she has registered with the Civil Registry. Foreign employees transferred to the Netherlands may apply for taxes to be levied only on 65 percent of their salary for the first five years of residence in the Netherlands. Husbands and wives are taxed separately on earned income. The maximum tax rate is 60 percent, applicable to taxable income less personal allowances that is higher than Dfl. 85,930.

Wealth Tax

146. An annual 0.8 percent wealth tax is levied on all assets of an individual. The following exemptions (only for Dutch residents) apply:

- Dfl. 58,000 for a single individual under age 27, unless he or she is entitled to child allowance or to a deduction for support of a child under age 27
- Dfl. 92,000 for all other single individuals
- Dfl. 117,000 for married couples

- Dfl. 7,000 for each child under age 18 who has received more than 50 percent of his or her support from the individual
- Dfl. 37,000 for each child between the ages of 18 and 27 who is supported substantially by the individual and is still in the process of completing an education

147. Residents are taxed on their entire net worth; nonresidents are taxed only on properties owned in the Netherlands. Not included in taxable assets are household furnishings, clothing, food, art objects, jewelry valued up to Dfl. 5,000, scientific objects, and certain insurance and annuity benefits. The wealth tax and income tax are payable at the same time. If the wealth and income taxes imposed on a resident taxpayer and spouse exceed 80 percent of their taxable income in that year, the excess wealth tax is refunded upon request.

Dividend Withholding Tax

148. Dividend withholding tax is applied at a standard rate of 25 percent, which, for resident individuals, is a prepayment on the income tax due. Tax treaties between the Netherlands and other countries reduce this rate for dividend payments to nonresidents. There are no withholding taxes on interest, royalties, or technical assistance fees.

Social Security Contributions

149. Extensive social security plans exist in the Netherlands. They cover almost all of an individual's basic needs in the event of old age, the death of a spouse, unemployment, illness, etc. A distinction must be made between *Volksverzekeringen* (National Insurance Plans), intended to cover all residents, and *Werknemersverzekeringen* (Employed Persons Insurance Plans), intended for employed persons only.

150. The social security taxes (related to the National Insurance Plans) are combined with the income taxes to form a single tax. The social security tax rate is 22.1 percent. The social insurance premiums (related to the Employed Persons Insurance Plans) are based on percentages of income, with varying maximum levels built in.

Tax Returns

151. The corporate income tax, individual income tax (including social security taxes), and net wealth tax are levied through an

assessment issued by the tax inspector. For income taxes, preliminary assessments, based on income for the previous year, can be issued. Annual returns must be filed within six months after the end of the company's fiscal year. A filing extension may be granted. Final payment (the current year's tax less the provisional tax paid) must be paid within one month after receipt of the final tax bill, which is issued after the return has been filed.

152. Individuals must file tax returns for each calendar year before April 1 of the subsequent year. For persons whose income consists only of salaries or wages not exceeding a certain amount, the wage tax withheld by the employer generally constitutes the final tax levy. Extensions for filing may be granted. Tax due according to the final assessment must be paid within two months from the date of the assessment. Most other taxes (VAT, capital tax, dividend withholding tax) must be paid when the return is filed by the taxpayer.

Use of Forms and Related Schedules

153. For all major taxes, special forms are used for filing the returns. In general, there are no rules or formalities regarding how related schedules are prepared.

Requirements for Preparing Accompanying Financial Statements

154. The corporate income tax return includes prescribed models of the financial statements to be prepared. Tax accounting may, and often does, differ from commercial and legal accounting. The legal accounts, together with reconciliations to the tax accounts and explanatory comments for differences, accompany the returns.

APPENDIX A

Pronouncements of the NIvRA

The NIvRA Board has issued auditing guidelines, auditing opinions, and interpretations of the Code of Conduct. Topical research studies are also published. A special series of publications is the PILOT series, which consists of English-language reports or translations of legislation, regulations, or professional viewpoints of potential importance or interest to the international accounting and business community.

The following is a list of the translated titles.

Auditing Guidelines

1.01	*Financial Statements and Other Auditing Objects*
2.01.2	*Acceptance and Confirmation of Audit Engagements*
2.01.4	*Using the Opinion of Other Auditors*
2.01.5	*Using the Statement of Other Experts*
2.02	*Requirements for an Auditor* (exposure draft)
2.03	*The Acting of an RA as Accountant in the Service of an Economic Entity, as a Branch Accountant, or as a Government Accountant* (exposure draft)
3.01	*Object and Scope of the Audit of Financial Statements* (exposure draft)
3.03	*Responsibility for Fraud and Errors* (exposure draft)
3.04	*Corresponding Amounts*
3.05	*Post-Balance-Sheet Events*
4.01	*Planning the Audit*
4.09	*Control of Quality of Audit Work*
4.10.1	*Representations by Management*
5.03	*Meaning and Wording of the Audit Report*
6.04	*Review of Financial Statements* (exposure draft)

Auditing Opinions

Some of the problems addressed in the auditing opinions are addressed in the auditing guidelines as well. For the time being, the auditing opinions will be maintained. They will be evaluated separately to see if withdrawal is necessary.

1 *The Audit Report With Respect to Companies With Going-Concern Problems*
2 *Control of Quality of Audit Work*
3 *Post-Balance-Sheet Events, Dating of the Audit Report, and Representations by Management*
4 *Working Papers for Audit Engagements*
5 *The Audit Report in Situations of Uncertainty*
6 *The Engagement Letter*
7 *Permanent Education for Registeraccountants*

Interpretations

Some of the problems addressed in the interpretations are addressed in the auditing guidelines as well. For the time being, the interpretations will be maintained. They will be evaluated separately to see if withdrawal is necessary.

1 *Tendering by Public Accountants*
2 *Due Care to Be Exercised by the Public Accountant Regarding the Publication of the Audit Report When Filing Accounts at the Trade Register*
3 *The Interpretation of the Words "Each Independently Usable Part of the Document" According to Article 6 of the Code of Conduct*
4 *The Acting of an RA as Accountant in the Service of an Economic Entity*
5 *The Limits of Acceptable Publicity for the Public Accountant* (deleted)
6 *Practicing Under Common Name of an RA and Acting as a Public Accountant With a Member of Another Discipline Employed by One Who Is Not an RA*
7 *Obtaining and Supplying Information for the Acceptance, and in the Execution, of Engagements (Articles 29 and 30 of the Code of Conduct)*
8 *The Application of Article 31 of the Code of Conduct, in Particular in Cases in Which Assistance Is Given to a Party in a Procedure Before the Enterprise Court or to a Complainant in a Court of Ethics Procedure*
9 *The Registeraccountant and Management Functions*
10 *The Wording of the Audit Opinion in Situations Other Than Statutory Audits*
11 *The Meaning of "Function Other Than That of Accountant" Especially Concerning the Application of Article 6 of the Code of Conduct*

Policy Guidelines

These guidelines, issued by the Board of the NIvRA, contain specific policy matters, which are not related to the contents of an RA's work.

- *General Conditions for Practicing as a Public Accountant in the Employment of a Corporation*
- *Policy Guidelines About the Acceptance of Requests for Associations Between RAs and Foreign Qualified Accountants*
- *Policy Guidelines About the Acceptance of Requests for Associations Between RAs and Member(s) of Other Discipline(s)*
- *Policy Guidelines About the Acceptance of Requests for Associations Between RAs and Accountants-Administratieconsulenten*
- *Policy Guideline on Compilation of Financial Statements by RAs*

PILOT Series

The following PILOTs have been published so far.

- *Rules of Conduct and Professional Practice of Registeraccountants*
- *Statistical Sampling in Auditing*
- *The Impact of EDP on Auditing*
- *The Nature of the Auditor's Opinion on the Financial Statements of Companies With Going-Concern Problems*
- *Sincerity in Financial Reporting*
- *Quality Control of Audit Work*
- *Management Audit*
- *Challenges to Financial Reporting in the Netherlands* (how corporate reporting is monitored by social pressure groups)
- *Post-Balance-Sheet Events, Dating of the Audit Report, and Management Representations*
- *Internal Audit in the Netherlands*
- *Dutch Accountancy: A Managerial Economics-Based Approach*
- *A Dutch View on Audit Fieldwork*
- *The Auditor's Opinion on Financial Statements in Situations of Uncertainty*
- *The Annual Report in the Netherlands*
- *Requirements for Qualification as a Registeraccountant in the Netherlands*
- *Statutory Audit Requirements in the Netherlands*

Study Reports

The NIvRA has issued twenty-six study reports on matters relevant to the practicing accountant or exploratory matters on which the Dutch profession has yet to make a final decision.

1 *Indexes*
2 *Management Audit*
3 *Organizational Knowledge*
4 *The Scope of the Auditor's Report*
5 *Indexes II*
6 *Business Economics*
7 *Neutral, but Not Passive*
8 *Social Report*
9 *Some Aspects of the Cooperation Between the General Auditor and the Organizational Expert, Both Working in the Same Organization*
10 *Privacy Protection and the Auditor*
11 *Organizational Conditions for Automating the Provision of Information*
12 *The Organization of Audit Teams*
13 *Evaluating Financial Forecasts by Auditors*
14 *The Accountant and Strategy Making*
15 *Information Needs and Information Systems*
16 *Interim Financial Statements and the Auditor*
17 *Small-Scale Automation and the Accountant*
18 *Documentation*
19 *Office Automation*
20 *The Accountant and Subsidies*
21 *Separation of Duties and Software*
22 *Problems in Dutch Accounting Law Concerning Investment Companies*
23 *Providing Information and Ethics*
24 *Transaction-Communication With Few or No Documents*
25 *The Work of an Accountant and Automation*
26 *Manager and Personal Computer*

APPENDIX B

Illustrative Auditor's Report and Financial Statements*

The following financial statements are intended for illustrative purposes only. The statements presented are not intended to include all information that Dutch law requires.

We have audited the financial statements of ABC BV in Rotterdam for the year 1990. We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. In our opinion, these financial statements give a true and fair view of the financial position of the Company at December 31, 1990, and of the result for the year then ended and also comply with the other Dutch legal requirements for financial statements.

XYZ Auditors
Rotterdam
The Netherlands

April 27, 1991

*This text is based on the new rules. These rules are obligatory for 1991 annual reports, although earlier application for 1990 reports is allowed and expected (see paragraph 57).

ABC BV
CONSOLIDATED BALANCE SHEET AT DECEMBER 31
(after proposed appropriation of the result for the year—expressed in millions of Dutch guilders)

	1990	*1989*
Assets		
Fixed Assets		
Intangible fixed assets	12	24
Tangible fixed assets	873	945
Financial fixed assets	90	92
	975	1,061
Current Assets		
Inventories	591	611
Accounts receivable and prepayments	541	423
Cash and bank	73	49
	1,205	1,083
Total Assets	2,180	2,144
Liabilities and Shareholders' Equity		
Share Capital and Reserves		
Share capital	418	418
Share premium	600	600
Cumulative translation adjustments	8	22
Other reserves	283	215
	1,309	1,255
Provisions		
Pensions	32	31
Deferred taxation	45	51
Major maintenance	31	7
	108	89
Long-Term Debt	110	141
Current Liabilities	653	659
Total Liabilities and Shareholders' Equity	2,180	2,144

ABC BV
CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31
(expressed in millions of Dutch guilders)

	1990	*1989*
Sales	11,878	9,987
Cost of sales	11,636	9,801
Gross Profit	242	186
Selling expenses	122	118
General and administrative expenses	30	31
	152	149
Operating Result	90	37
Interest and similar income	6	4
Income from investments	5	3
Interest and similar expense	(12)	(13)
Result of Financial Income and Expense	(1)	(6)
Result Before Taxation	89	31
Taxation	21	10
Net Result	68	21

ABC BV
SIGNIFICANT ACCOUNTING POLICIES
December 31, 1990

General

The accounts have been prepared in accordance with the provisions of Dutch legislation.

Net result and shareholders' equity are determined based on historical cost. Income and expenses are, based on the above fundamental basis of reporting, allocated to the reporting year to which they relate. Balances in the annual accounts, whose valuation is not otherwise explained, are stated at nominal value.

Intangible Fixed Assets

Goodwill, which represents the excess of cost over the underlying net value of businesses acquired, is amortized over five years using the straight-line method.

Debenture issue costs and formation expenses capitalized are amortized in five years on the straight-line basis.

Tangible Fixed Assets

Tangible fixed assets are stated at the lower of cost or economic value to the business as determined by management. Depreciation is calculated using the straight-line method based on the expected economic lives of the assets. Cost includes interest capitalized during construction of certain major installations.

In calculating annual depreciation, the following economic lives of fixed assets are generally used:

Category of Asset	*Estimated Economic Life*
Buildings	Thirty-three to forty years
Installations	Ten to thirty-three years
Other	Four to twenty-five years

Financial Fixed Assets

Nonconsolidated investments are carried at their net equity value. These primarily consist of joint ventures with other oil companies.

Inventories

Inventories are carried at the lower of cost using the first-in, first-out method or net realizable value. Stores inventories are carried at average cost less allowance for obsolete items.

Taxation

Taxes are calculated in accordance with the tax legislation of the various countries in which the group operates.

Deferred income tax is provided, using the liability method, with respect to timing differences arising primarily from the different accounting and tax treatment of depreciation and valuation of oil inventory in reporting income and expense for financial and fiscal purposes.

No provision is made for any taxation that might arise should the retained earnings of foreign group and nongroup companies be distributed.

Pension Provisions

Pensions are funded with an insurance company. The annual increases in past-service provisions arising from insured pension plans operating within the group are charged to income.

Provision for Major Maintenance

Every two or three years on average, a major maintenance, which results in a shutdown of the refinery, is carried out on refinery-processing units. The maintenance cost is provided during the intervening period using the straight-line method.

Currency Translation

Transactions in foreign currencies are translated into Dutch guilders at the exchange rate prevailing at the transaction date. At the balance-sheet date, all assets and liabilities denominated in currencies other than Dutch guilders are translated into Dutch guilders at year-end rates of exchange.

The resulting exchange gains or losses are recognized in the profit and loss account.

Principles of Consolidation

The consolidated accounts comprise the accounts of ABC BV and its wholly owned group companies. All significant intercompany balances and transactions are eliminated in consolidation.

Except for shareholders' equity, the annual accounts of the foreign group companies have been translated from the local currency into Dutch guilders at the rate of exchange ruling at the balance-sheet date. Exchange differences arising on translation of the net investments in group companies into Dutch guilders are included as a component of shareholders' equity.

ABC BV
NOTES TO THE CONSOLIDATED ACCOUNTS
December 31, 1990
(expressed in millions of Dutch guilders)

1. General

ABC BV (the "Company"), together with its group companies ("ABC Group"), is engaged in the trading and refining of crude oil and the marketing and distributing of finished oil and gas products.

2. Intangible Fixed Assets

The movements during the year in intangible fixed assets can be summarized as follows:

	Debenture Issue Costs and Discounts	*Formation Expenses*	*Goodwill*	*Total 1990*	*Total 1989*
Cost					
Opening balance	10	15	38	63	53
Additions	—	—	—	—	15
Elimination of fully amortized goodwill	—	—	(5)	(5)	(5)
Closing balance	10	15	33	58	63
Accumulated amortization					
Opening balance	6	12	21	39	36
Charge for the year	2	3	7	12	8
Elimination of fully amortized goodwill	—	—	(5)	(5)	(5)
Closing balance	8	15	23	46	39
Net book amount at December 31, 1990	2	—	10	12	
Net book amount at December 31, 1989	4	3	17		24

3. Tangible Fixed Assets

The movements during the year in tangible fixed assets can be summarized as follows:

	Land and Buildings	*Installations*	*Other*	*Assets Under Construction*	*Total 1990*	*Total 1989*
Cost						
Opening balance	99	1,399	58	6	1,562	1,556
Additions	6	14	5	9	34	6
Transfers	—	10	3	(13)	—	—
Closing balance	105	1,423	66	2	1,596	1,562
Accumulated depreciation						
Opening balance	41	546	30	—	617	522
Charge for the year	4	97	5	—	106	95
Closing balance	45	643	35	—	723	617
Net book amount at December 31, 1990	60	780	31	2	873	
Net book amount at December 31, 1989	58	853	28	6		945

Installations consist primarily of a refinery.

The refinery site has been leased for a period of fifty years (commencing January 1, 1955) from the Municipality of Rotterdam. On expiration of this period, the lease can be extended for further periods of twenty-five years up to 2055. Under the terms of the agreement, the municipality cannot terminate the lease before that year.

The current cost of properties and operating assets is estimated at Dfl. 2,200 million (1989: Dfl. 2,166 million). The accumulated depreciation on a current cost basis is estimated at Dfl. 1,296 million (1989: Dfl. 1,159 million).

4. Financial Fixed Assets

These make up a loan to and investments in non-group companies.

The movements in financial fixed assets can be summarized as follows:

	1990	*1989*
Investments		
Opening balance	30	25
Translation adjustment	(2)	2
Equity share in results for the year	5	3
Closing balance	33	30

(Continued on next page)

	1990	1989
Loan		
Opening balance	62	58
Translation adjustment	(5)	4
	57	62
Total Financial Fixed Assets	90	92

The loan comprises a U.S.-dollar loan, bearing interest at an annual rate of ⅛ percent above the rate of interest paid with respect to the related Debentures 1980/94. Repayment of the loan will be made in amounts corresponding to all payments the group company may be required to make, or elect to make, to the holders of the Debentures (see Note 14).

5. Inventories

These comprise the following:

	1990	1989
Crude oil	246	308
Finished oil products	317	276
Stores and materials	28	27
	591	611

6. Accounts Receivable and Prepayments

These comprise the following:

	1990	1989
Trade debtors	504	386
Long-term receivables due within one year	6	6
Other receivables	31	31
	541	423

7. Cash

Cash includes bank, giro (a bank account at the Post Bank), and cash balances. There are no restrictions on these accounts, other than with respect to Dfl. 5 million located in a country with severe exchange regulations.

8. Share Capital

The authorized share capital comprises 600,000 common shares of Dfl. 1,000 each. The issued share capital comprises 418,000 shares, each fully paid.

During 1990 and 1989 there were no changes in issued share capital.

9. Share Premium

Share premium consists of premium received on shares issued. During 1990 and 1989 there were no changes in share premium.

10. Cumulative Translation Adjustment

The movements in the reserve are as follows:

	1990	*1989*
Opening balance	22	—
Net result for the year	(14)	22
Closing balance	8	22

11. Accumulated Profits

The movements in the reserve are as follows:

	1990	*1989*
Opening balance	215	194
Net result for the year	68	21
Closing balance	283	215

12. Pension Provisions

The provision represents the past-service liability, which is not vested, based on the proportionate premium method, discounted at 8 percent, and is regarded as long-term.

13. Deferred Taxation

Deferred taxation relates mainly to differences in valuation of oil inventory for fiscal and commercial purposes and is regarded as long-term.

14. Long-Term Debt—Amounts Falling Due After More Than One Year

This comprises the following:

	1990	*1989*
12% U.S.-dollar debentures 1980/1994	57	62
8% Dutch-guilder debentures 1970/1991	10	16
7¼% Dutch-guilder debentures 1970/1992	22	28
8½% loan 1976/1992	26	35
	115	141
Other debts (average interest 7¾%)	20	29
	135	170
Less: Due within one year	25	29
	110	141

The redemption plan of the remaining long-term debt can be summarized as follows:

	1990	*1989*
Repayable within one to two years	27	27
Repayable within two to three years	17	24
Repayable within three to four years	58	17
Repayable within four to five years	2	64
	104	132
Repayable within five to ten years	6	8
Repayable ten years and over	—	1
	6	9
	110	141

15. Current Liabilities—Amounts Falling Due Within One Year

These comprise the following:

	1990	*1989*
Current portion of long-term debt	25	29
Suppliers	553	548
Taxes and duties	62	65
Pensions	3	3
Loan interest	4	6
Other liabilities	6	8
	653	659

16. Commitments and Contingent Liabilities

The major lease commitments of the Company and its subsidiaries at December 31, 1990 (excluding indexation), can be summarized as follows:

1991	18
1992	18
1993	26
1994	15
1995	15
1996 up to and including 2010 (annually)	15

17. Net Sales by Geographical Area

Net sales of the Company and subsidiaries by geographical area can be summarized as follows:

	1990	1989
The Netherlands	3,567	2,582
United Kingdom	2,414	1,872
West Germany	2,416	1,924
France	1,237	936
Italy	823	723
Spain	781	802
Other	640	1,148
	11,878	9,987

18. Salaries, Social Charges, and Pension Cost

These comprise the following:

	1990	1989
Salaries	75	74
Social charges	12	12
Pension cost	3	3
	90	89

Included in these amounts are remuneration and pension costs for management and former management of Dfl. 510 thousand and for the supervisory directors of Dfl. 52 thousand.

The average number of persons employed during the year is as follows:

	1990	1989
Refining	412	410
Marketing	774	738
Other	82	64
	1,268	1,212

19. Taxation

Differences between the effective tax rate and the statutory tax rate are caused by tax-deductible items of a permanent nature.

ABC BV*
BALANCE SHEET AT DECEMBER 31
(after proposed appropriation of the result for the year—expressed in millions of Dutch guilders)

	1990	1989
Assets		
Fixed Assets		
Financial fixed assets	1,120	1,138
Current Assets		
Inventories	560	550
Accounts receivable and prepayments	16	43
Amounts due from ABC Group companies	249	126
Cash and bank	37	4
	862	723
Total Assets	1,982	1,861
Liabilities and Shareholders' Equity		
Share Capital and Reserves		
Share capital	418	418
Share premium	600	600
Cumulative translation adjustment	8	22
Other reserves	283	215
	1,309	1,255
Provisions		
Pensions	3	3
Deferred taxation	40	45
	43	48
Long-Term Debt	19	28
Current Liabilities		
Creditors and accrued expenses	435	348
ABC Group companies	176	182
	611	530
Total Liabilities and Shareholders' Equity	1,982	1,861

*This section contains the parent-only financial statements.

ABC BV
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31
(expressed in millions of Dutch guilders)

	1990	*1989*
Sales	8,321	7,459
Cost of sales	8,247	7,405
Gross Profit	74	54
General and administrative expenses	11	9
Operating Result	63	45
Interest and similar income	4	–
Income/(loss) from investments	18	(15)
Interest and similar expenses	(2)	(3)
Result of Financial Income and Expense	20	(18)
Result Before Taxation	83	27
Taxation	15	6
Net Result	68	21

ABC BV
SIGNIFICANT ACCOUNTING POLICIES
December 31, 1990

General

The methods used to determine the result and the equity, as well as the separate components of the balance sheet and profit and loss account, are those used in the consolidated accounts.

Investments

The investments in ABC Group companies are included in these accounts at their net equity value. Dividends are recognized when declared.

ABC BV
NOTES TO THE ACCOUNTS
December 31, 1990
(expressed in millions of Dutch guilders)

1. Financial Fixed Assets

These comprise investments in and amounts due from ABC Group companies.

The movements in investments and amounts due can be summarized as follows:

	1990	*1989*
Investments		
Opening balance	271	276
Translation adjustment	(6)	10
Equity share in results for the year	13	(15)
Closing balance	278	271
Amounts Due		
Opening balance	867	917
Translation adjustment	(8)	12
Repayment	(17)	(62)
Closing balance	842	867
Total Financial Fixed Assets	1,120	1,138

The amounts due are non-interest-bearing.

2. Inventories

These comprise the following:

	1990	*1989*
Crude oil	280	308
Finished oil products	280	242
	560	550

3. Accounts Receivable and Prepayments

These comprise the following:

	1990	*1989*
Prepaid expenses	8	16
Other receivables	8	27
	16	43

4. Cash and Bank

This comprises bank balances that are unrestricted.

5. Reserves

The movements in the reserves are as follows:

	Cumulative Translation Adjustment	*Other Reserves*	*1990 Total*	*1989 Total*
Opening balance	22	215	237	194
Translation adjustment	(14)	—	(14)	22
From 1989 net result	—	68	68	21
Closing balance	8	283	291	237

6. Long-Term Debt—Amounts Falling Due After More Than One Year

This comprises the following:

	1990	*1989*
8.5% loan 1976/1992	26	35
Other debts (average interest 7.75%)	3	3
	29	38
Less: Due within one year	(10)	(10)
	19	28

The redemption plan of the remaining long-term debt can be summarized as follows:

	1990	*1989*
Repayable within one to two years	10	10
Repayable within two to three years	9	10
Repayable within three to four years	—	8
	19	28

7. Creditors and Accrued Expenses—Amounts Falling Due Within One Year

These comprise the following:

	1990	*1989*
Current portion of long-term debt	10	10
Suppliers	363	277
Taxes and duties	58	53
Pensions	3	3
Loan interest	1	1
Other liabilities	—	4
	435	348

8. Contingencies and Commitments

The Company has, under Article 403, Title 9, Civil Code, Book 2, guaranteed the liabilities of the following subsidiaries:

ABC Raffinaderij BV
ABC Marketing BV

9. Net Sales

Net sales of the Company are substantially to ABC Group companies.

10. Salaries, Social Charges, and Pension Cost

These comprise the following:

	1990	*1989*
Salaries	3.0	2.8
Social charges	0.5	0.5
Pension cost	0.1	0.1
	3.6	3.4

The average number of persons employed during the year is as follows:

1990	*1989*
50	49

April 27, 1991

Managing Directors	Supervisor Directors
A. Wit, Chairman	H. Lang
B. Zwart	J. Kort
C. Rood	K. Wijd
D. Blaauw	

APPENDIX C

Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States to Auditing Standards in the Netherlands

General Information	Answer	Comments
1. Is a primary purpose of an audit— *a.* to attest to information used by investors, creditors, etc.?	Yes	1. Historically, the audit function in the Netherlands has been predicated upon protection of shareholders as well as any other potential user of financial statements in general. This underlying philosophy was adopted by the legislature when mandatory audit requirements were first introduced in 1972 and reconfirmed with the introduction of the Fourth EEC Directive into Dutch national law. Thus, Dutch audit reports are often not addressed to any specific party.
b. to satisfy statutory requirements (for example, the Companies Act)?	Yes	
c. for tax purposes?	No	
2. A. The United States has ten generally accepted auditing standards including general standards, standards of fieldwork, and standards of reporting. Those standards and their interpretations constitute U.S. generally accepted auditing standards, which have been published in *Codification of Statements on Auditing Standards*. Do generally accepted auditing standards exist in the Netherlands?	Yes	2A. Since 1985 the NIvRA has been in the process of producing a comprehensive set of auditing guidelines. This process will take several more years.

B. If so, are they published?	Yes	2B. See appendix A.
C. If auditing standards exist in the Netherlands, are they similar to U.S. standards?	Yes	2C. Conceptually, they are similar but less prescriptive in their procedural details.
D. If not, what are they?		
3. Who is responsible for promulgating auditing standards (for example, the profession, a governmental body, etc.)?		3. Overall responsibility for the auditing guidelines rests with the College voor Beroepsvraagstukken (CBV), the Board for Professional Matters. The CBV delegates the production of the guidelines to the Commissie Richtlijnen voor de Accountants-controle (CORA), the Auditing Guidelines Committee.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
4. Do auditors confirm receivables? (AU 331)	No		✓		4. This is increasingly becoming practice.
5. Do auditors observe inventory counts? (AU 331)	No	✓			
6. Do auditors receive written representations from management? (AU 333)	Strongly recommended. Guideline 4.10.1	✓			6. Practice is increasing.

Notes:

Checklist was completed from the perspective of performing a local audit, *not* a referral audit.
AU section numbers refer to sections in the *Codification of Statements on Auditing Standards*, unless otherwise noted.
This checklist does not include the latest GAAS pronouncements issued in the United States.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
7. Do auditors receive written representations from management's legal counsel? (AU 337)	No		✓		
8. A. Do auditors prepare and maintain working papers? (AU 339)	Yes. Opinion 4 and Code of Conduct, article 18	✓			
B. If so, do they include a written audit program outlining procedures to be performed? (AU 339)	Yes. Opinion 4	✓			
9. Do auditors obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed? (AU 319)	Yes	✓			9. Based on authoritative literature.
10. A. Do auditors communicate reportable conditions in the internal control structure to the audit committee? (AU 325)	Yes. Civil Code, Book 2, Title 9, article 393.4	✓			10A. Less than material weakness may also be communicated in a letter to management.
B. If so, is the communication documented? (AU 325)	Yes	✓			
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU 350)	No	✓			11. Both are used.
12. Is the auditor responsible for designing the audit to provide reasonable assurance of detecting errors and irregularities	Yes. Draft Guideline 3.03	✓			12. Fraud, material errors, or both should be reported to the Board of Executive Directors or, in the case of fraud by manage-

that are material to the financial statements? (AU 316)				ment, to the Board of Supervisory Directors.
13. A. Does the auditor perform procedures to identify related-party transactions and their effect on the financial statements? (AU 334)	Yes. Civil Code, Book 2, Title 9	✓		13A. Awareness of the possible risks of group-related transactions is a basic principle in the audit; disclosure requirements are less rigorous than in the United States.
B. If so, list the procedures.				13B. Responsibility for identification primarily rests with the company; the auditor will evaluate and test the adequacy of established procedures and the results.
14. Does the auditor consider the adequacy of cutoff procedures to ensure that movements into and out of inventories are properly identified in the accounting records? (AU 313)	No	✓		
15. A. Are specific auditing procedures applied to transactions occurring after the balance-sheet date? (AU 560)	Yes. Guideline 3.05; Civil Code, Book 2, Title 9	✓		
B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU 560)	Yes. Guideline 3.05; Civil Code, Book 2, Title 9	✓		
16. The concept of "joint auditors" in certain countries (for example, the United Kingdom, Canada, and Australia) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by the two	No		✓	16. Two large Dutch/U.K. multinationals, Shell and Unilever, have joint audits.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
firms. This practice is not generally followed in the Untied States. Does the concept of "joint auditors" exist in the Netherlands?					
17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, divisions, branches, or investees: (AU 543)					
A. Must the principal auditor assume responsibility for the work of the other auditor as it relates to the principal auditor's opinion?	Yes. Code of Conduct, article 15; Guideline 2.01.4	✓			
B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?	No. Code of Conduct, article 15; Guideline 2.01.4			✓	
18. A. Is there a standard form of auditor's report? (AU 508)	Yes. 1972 NIvRA Board Recommendation; Guideline 5.03	✓			18A. See paragraphs 54 through 55 of text.
B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU 508)					18B. See paragraph 56 of text.
19. A. Does the auditor's report require an explanatory paragraph for a change in accounting principles or in the method	No			✓	

of their application? (AU 508)				
B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?	Yes. Guideline 5.03, by inference	✓		
20. A. Is the auditor's report dated as of the last day of fieldwork? (AU 530)	No		✓	
B. If not, what date is used?				20B. According to Guideline 3.05, it is preferable to date the report when the annual accounts are approved by the supervisory directors.
21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as not having a financial interest in or connection with the client (Code of Professional Conduct, Rule 101 and its interpretations).	Yes. Code of Conduct, article 9 (impartiality) and article 22 (independence)	✓		
22. Please describe any standards in the Netherlands for which there are no corresponding U.S. standards.				22. None

APPENDIX D

Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States to Accounting Principles in the Netherlands

General Information	Answer	Comments
1. Are there generally accepted accounting principles in the Netherlands? If so, are they codified?	Yes	1. Civil Code, Book 2, Title 9; Guidelines of the Council for Annual Reporting.
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, etc.)?		2. The government, the Enterprise Court, and the Council for Annual Reporting. Participants in the Council for Annual Reporting include the NIvRA (the profession) and employers' and users' organizations.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical cost basis?	Yes. Civil Code, Book 2, Title 9, article 384; GCAR (par.1.03)	✓			3. Current value accounting is the minority practice.

4. Are interest costs, incurred while activities that are necessary to get an asset ready for its intended use are in progress, capitalized as part of the historical cost of an asset? (I67)	Allowed. Civil Code, Book 2, Title 9, article 388; GCAR (par1.03)	✓		4. Predominant practice for fixed assets, and minority practice for inventories.
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40)	Yes. Civil Code, Book 2, Title 9, article 384 (application of current value accounting) and article 387 (downward revaluation to lower value in the context of historical cost accounting)		✓	5A. When historical cost accounting is applied, current value information must be disclosed in the notes when material differences exist between current value and historical cost.
B. If so, define the basis.				5B. The current value of an asset is the replacement value, the net realizable value, or the present value, depending on the circumstances (defined in governmental decree and GCAR [par.1.03]).
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the fair market value of the assets involved when that value is determinable within reasonable limits? (N35)	No	✓		

Notes:

References in the U.S. Generally Accepted Accounting Principles column are to sections in the *FASB Current Text*, unless otherwise noted.
This checklist does not include the latest GAAP pronouncements issued in the United States.
GCAR refers to Guidelines of the Council for Annual Reporting.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (Statement of Financial Accounting Concepts No. 5)	Yes. Civil Code, Book 2, Title 9, articles 362 and 384; GCAR (par.2.71)	✓			
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	Yes. Civil Code, Book 2, Title 9, articles 362 and 384; GCAR (par.2.71)	✓			
9. A. Are consolidated financial statements required when one company has control over another company? (C51)	Yes. Civil Code, Book 2, Title 9, article 406; GCAR (par.2.03)	✓			9A. Consolidated financial statements should be prepared for a group of companies that form an economic unity under common control.
B. Is control usually indicated by ownership of over 50 percent of the outstanding voting shares? If not, how is control indicated?	Yes. Civil Code, Book 2, articles 24a and 24b	✓			
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51)	Yes. Civil Code, Book 2, Title 9, articles 406 and 407; Draft GCAR (par.2.03)	✓			
B. If so, list them.					10B. The exemptions are— • For a group company whose operations are very dissimilar to the primary operations (for example, an insurance company in an industrial group). • For group companies that,

				taken together, are not material to the group as a whole. • For a group company for which the necessary information can only be obtained at very high cost or with long delays. • For a group company that is held to be sold.
11. If consolidation is not otherwise appropriate, is the equity method used for unconsolidated subsidiaries, corporate joint ventures, and other investees, if the investments give the investor the ability to exercise significant influence over the investees' operating and financial policies? (I82)	Yes. Civil Code, Book 2, Title 9, article 389; Draft GCAR (par.2.03)	✓		
12. Are there two methods of accounting for business combinations—the pooling-of-interests method and the purchase method? (B50)	Both methods are allowed.	✓ purchase method	✓ pooling-of-interests method	12. The pooling-of-interests method is very rare. The principle of true and fair view usually requires purchase accounting.
13. Is the method used to account for a business combination disclosed? (B50)	Yes. Civil Code, Book 2, Title 9, article 384; Draft GCAR (par.2.03)	✓		
14. A. Do criteria exist for treatment of business combinations as a pooling of interests? (B50)	No		✓	
B. If so, list the criteria.				
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60)	Civil Code, Book 2, Title 9, article 389; Draft GCAR (par.2.03)		✓	15A. See paragraph 99 of text.
B. If so, is it amortized as a charge to income over the period esti-	If capitalized, amortization			15B. Alternatively, goodwill can be written off immediately against

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
mated to be benefited?	should be over the expected useful life. Civil Code, Book 2, Title 9, article 3863; Draft GCAR (par.2.03)				reserves or charged to income. Writing off against reserves is the predominant practice.
16. Are the following disclosures made for related-party transactions: (R36)					
a. the nature of the relationship?	Yes. Civil Code, Book 2, Title 9, article 379; GCAR (par.1.19.3)	✓			16*a*. Only when the relationship is based on significant influence or control.
b. a description of the transactions for the periods presented?	Yes. GCAR (par.1.19.3)	✓			16*b*. Done if the related-party aspect of the transaction has financial statement consequences.
c. the amounts of the transactions for the periods presented?	Yes. (GCAR [par.1.19.3]), and some revenues and expenses relating to group companies. Civil Code, Book 2, Title 9, article 377	✓			
d. the amounts due to or from related parties at the balance-sheet date?	Yes. Civil Code, Book 2, Title 9, articles 367, 370, and 375	✓			16*d*. Done for group companies, for long-term investments in other companies, and for companies that have a long-term investment in the reporting company.
17. Is an estimated loss from a loss contingency accrued only if it is	Yes. Civil Code, Book 2, Title 9,	✓			

probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59)	article 374; GCAR (par.2.53)			
18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59)	Yes, based on the principle of true and fair view. GCAR (par.2.65)	✓		18. Civil Code, Book 2, Title 9, article 376, requires guarantees, in particular for group companies, to be disclosed.
19. Are guarantees of the indebtedness of others or other loss contingencies disclosed in financial statements even though the possibility of loss may be remote? [In the United States, guarantees are usually disclosed as loss contingencies even if the possibility of loss is remote.] (C59)	Guarantees of the indebtedness of others and discounted notes: yes. Civil Code, Book 2, Title 9, article 376. Other loss contingencies: no.	✓ guarantees of the indebtedness of others and discounted notes	✓ other loss contingencies	
20. Are the following items disclosed in a public enterprise's financial statements for each industry segment: (S20)				
a. sales to outsiders and intersegment sales?	No. Civil Code, Book 2, Title 9, article 380	✓		20*a*. If a company has activities in various industry segments, disclosure is required, with the support of figures, to the extent to which each type of activity has contributed to the sales.
b. operating profit or loss?	No		✓	
c. identifiable assets and related depreciation, depletion, and amortization expense?	No		✓	
d. capital expenditures?	No		✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
e. equity in net income and net assets of unconsolidated subsidiaries and other investees?	No			✓	
f. effect of a change in accounting principle?	No			✓	
21. A. Are there any requirements or recommendations to disclose the effects of inflation? (C28)	Yes, if significant for the true and fair view. GCAR (par.1.03)	✓			21A. Disclose at least in footnotes.
B. If so, list the disclosures required.					21B. If there is a material difference between costs and current/replacement value, the accounts should either be stated at current/replacement value or the difference should be footnoted. The Netherlands does not endorse inflation accounting in the sense of general price-level accounting; however, it does endorse specific price-level adjustments.
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes. Civil Code, Book 2, Title 9 and model chart of accounts	✓			
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05)	Yes. Civil Code, Book 2, Title 9, by inference	✓			
B. If not, how are noncurrent assets defined?					

24. A. Is an allowance established for uncollectible receivables? (C59)	Yes. Civil Code, Book 2, Title 9, articles 374 and 387; GCAR (par.2.53)	✓	
B. If so, what is the basis (for example, percentage of sales, aging of receivables, etc.) for calculating the allowance?			24B. The most effective method applicable in the circumstances.
25. Are receivables and payables, not arising in the normal course of business or subject to normal trade terms, recorded at an amount which takes imputed interest into account? (I69)	No, except for pension provisions. GCAR (par.2.53)	✓	25. Predominant practice for pensions.
26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (I78)	Yes. Civil Code, Book 2, Title 9, article 387; GCAR (par.1.03)	✓	26A. Replacement cost is the minority practice.
B. If not, how is inventory stated?			
C. Is the basis disclosed?	Yes. Civil Code, Book 2, Title 9, article 384	✓	
27. Does cost for inventory purposes include: (I78)			
a. materials?	Yes — Civil Code, Book 2, Title 9, article 388; GCAR (par.1.03)	✓	
b. direct labor?	Yes	✓	
c. factory overhead?	Yes	✓	
d. if the answer to *c* is yes, is an allocable share of all factory overhead included?	Optional	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
28. A. Are the following cost methods permitted for reporting purposes: (I78)	Civil Code, Book 2, Title 9, article 385; GCAR (par.1.03)				
a. first-in, first-out (FIFO)?	Yes	✓			
b. last-in, first-out (LIFO)?	Yes		✓		
c. average cost?	Yes		✓		
B. Are the same methods permitted for tax purposes?	See Comment	✓			28B. Yes, except LIFO.
29. Is the inventory costing method used disclosed? (I78)	Yes. Civil Code, Book 2, Title 9, article 384; GCAR (par.1.03)	✓			
30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40)	Yes. Civil Code, Book 2, Title 9, article 386; GCAR (par.2.02)	✓			30A. Besides systematic depreciation, other write-downs may be recorded; both depreciation and other write-downs should be made independent of reported income.
B. If so, is an accumulated depreciation account used?	Yes. Civil Code, Book 2, Title 9, article 368; GCAR (par.2.02)	✓			
31. Are disclosures made of: (D40)	Civil Code, Book 2, Title 9, article 368; GCAR (par.2.02)				
a. depreciation expense for the period?	Yes	✓			
b. balances of major classes of depreciable assets?	Yes	✓			

c. the methods used to compute depreciation for the major asset classes?	Yes — Civil Code, Book 2, Title 9, articles 368 and 386; GCAR (par.2.02)	✓	
d. accumulated depreciation, either by major class of assets or in total?	Yes — Civil Code, Book 2, Title 9, articles 368 and 386; GCAR (par.2.02)	✓	
32. A. Do criteria exist for classifying leases as operating leases? (L10)	Yes. GCAR (par.1.05)	✓	
B. If so, list the criteria and disclosure requirements.			32B. If the lease is not a financial lease, the lessee will not become, ultimately, the legal owner; the economic risks rest with the lessor, as with a rental contract. Terms and amount should be disclosed.
33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10)	Yes. GCAR (par.1.05)	✓	
B. If so, list the criteria, type of lease, and disclosure requirements.			33B. Financial lease: Lessee has the legal right to acquire the asset upon termination of the agreement at a price below market value, or the lease period equates to the economic lifetime of the asset, or combinations thereof. Financial leases should be capitalized in the accounts of the lessee as fixed assets.
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	Yes. Civil Code, Book 2, Title 9 and model chart of accounts	✓	
35. A. Are noncurrent liabilities those whose liquidation is	Yes, by inference	✓	35A. Noncurrent liabilities are those payable in excess of one

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
not expected to require the use of current assets or the creation of current liabilities? (B05)					year. Civil Code, Book 2, Title 9, model chart of accounts; GCAR (par.2.54).
B. If not, how are noncurrent liabilities defined?					
36. For notes payable, is disclosure made of: (C32)					
a. interest rates?	Yes	✓			36*a.* In excess of one year.
b. maturities?	Yes, broadly	✓			36*b.* In excess of five years.
c. assets pledged as collateral?	Yes	✓			
d. covenants to reduce debt?	Recommended	✓			36*d.* Covenants should be disclosed when there is a possibility that they will become effective.
e. minimum working capital requirements?	Yes, if applicable	✓			
f. dividend restrictions?	Yes, if applicable	✓			
	Civil Code, Book 2, Title 9, article 375; GCAR (par.2.54)				
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed contract methods used? (Co4)	Yes, by inference only	✓			37A. Both methods are used.
B. If so, what are the criteria for determining the method to be used?					37B. Primary criterion is the true and fair view.
38. A. Are research costs charged to expense when incurred? (R50)	Optional. GCAR (par.2.01)	✓			38A. Can be capitalized subject to setting up a legal reserve (Civil Code, Book 2, Title 9, article 365).

			Furthermore, certain criteria relating to the economic benefits of the research activities should be met.
B. Are such costs disclosed?	Yes. GCAR (par.2.01)	✓	38B. The executive directors' report should disclose information about the research activities.
39. A. Are development costs charged to expense when incurred? (R50)	Optional. GCAR (par.2.01)	✓	39A. Can be capitalized subject to setting up a legal reserve (Civil Code, Book 2, Title 9, article 365). Furthermore, certain criteria relating to the economic benefits of the development activities should be met.
B. Are such costs disclosed?	Yes. GCAR (par.2.01)	✓	39B. The executive directors' report should disclose information about the development activities.
40. A. In the United States, events and transactions are presented in the income statement as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur in the foreseeable future. Do similar criteria for identifying extraordinary items exist in the Netherlands? (I17)	No. Civil Code, Book 2, Title 9, article 377; GCAR (par.2.71)	✓	
B. If not, what are the criteria?			40B. Extraordinary items are defined as those items that do not result from the ordinary business of the company; normally, these items occur incidentally. The definition of an extraordinary item is less strict than that in U.S. GAAP.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
41. Are material events or transactions that are unusual in nature or expected to occur infrequently but not both (and thus do not meet the criteria for classification as extraordinary) shown as a separate component of income or expense? (I22)	Yes. Civil Code, Book 2, Title 9, article 377; Draft GCAR (par.2.71)	✓			41. If not classified as extraordinary income or expense in the Netherlands, these items will normally be classified as other income or expense.
42. Are disclosures required for:					
a. extraordinary items? (I17)	Yes. Civil Code, Book 2, Title 9, article 377; GCAR (par.2.71)	✓			
b. material events or transactions not classified as extraordinary items? (I22)	Yes. Civil Code, Book 2, Title 9, article 377; GCAR (par.2.71)	✓			42*b.* In particular, items related to prior periods and items of unusual magnitude.
c. disposal of a segment of a business? (I13)	Yes, by inference only	✓			
43. A. Are pension costs provided for covered employees over the term of employment? (P16)	Yes. GCAR (par.2.53)	✓			
B. If so, do they include charges for costs assigned under the actuarial method used to years prior to the plan's inception?	Possibly yes. GCAR (par.2.53), if applicable	✓			
44. A. Are specific disclosures required relating to pension plans? (P16)	Yes, Title 9, articles 374, 375, and 377; GCAR (par.2.53)	✓			
B. If so, list them.					44B. Explanation of accounting principles applied. The plan itself

			need not be explained; unfunded rights are to be provided for; unfunded contingent rights/obligations can be provided for, but should at least be disclosed in the footnotes. Pension costs need to be disclosed in the profit/loss statement. Pension provisions are disclosed separately.
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for temporary differences (as opposed to permanent differences)? (I25)	Yes. Civil Code, Book 2, Title 9, article 374; GCAR (par.2.53)	✓	
B. If so, are deferred taxes provided for all temporary differences (as opposed to only those meeting certain criteria)?	Yes. GCAR (par.2.53)	✓	
46. A. Are deferred taxes determined on the basis of current tax rates? (I25)	Yes. GCAR (par.2.53)	✓	
B. If not, on what basis?			
47. A. Is specific information related to income taxes required to be disclosed? (I25)	Yes. Civil Code, Book 2, Title 9, articles 374, 375, 377, and 390; GCAR (par.2.53)	✓	47A,B. Accounting policies for taxes should be disclosed, as well as the provision for deferred taxes, taxes payable, tax expense, and the application of deferred taxes on the revaluations of assets.
B. If so, list the requirements.			
48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (I25)	Yes. GCAR (par.2.53)	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, are the tax effects of a loss carryback included in the income in the period?	Yes. GCAR (par.2.53)	✓			
49. A. Are operating losses reported on the income tax return allowed to be carried forward? (I25)	Yes. GCAR (par.2.53)	✓			
B. If so, are the tax effects of a loss carryforward included in the income in the period realized?	Yes. GCAR (par.2.53)	✓			49B. Permitted as long as there are deferred tax liabilities with the same terms or as long as there is no reasonable doubt that the loss carryforward can be realized by future taxable income.
50. Are financial statements of a foreign entity prepared for consolidation purposes measured in the currency of the primary economic environment in which the entity operates? (F60)	Yes. GCAR (par.1.03)	✓			
51. Are all elements of financial statements translated at current exchange rates? (F60)	No	✓			51. Income statement items of the foreign entity may be translated at average exchange rates. Income statement items that result from foreign currency transactions of the reporting company are translated at the rate of exchange at the transaction date. Loans for which hedging transactions are made can be translated at forward rates.
52. A. Are translation adjustments reported separately? (F60)	Optional. GCAR (par.1.03)	✓			52A. Translation adjustments related to foreign entities are

				normally disclosed as an explanation of changes in stockholders' equity.
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	Optional. GCAR (par.1.03)		✓	
C. Is there an analysis of the changes during the period in the component of stockholders' equity relating to translation adjustments?	Optional. GCAR (par.1.03)		✓	
53. A. Are gains and losses resulting from transactions, denominated in a currency other than that of the environment in which the entity operates, included in determining net income for the period in which the exchange rate changes? (F60)	Yes. GCAR (par.1.03)	✓		
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	No	✓		53B. These net exchange gains or losses are sometimes grouped with other financial income and expense.
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transactions? (F60)	Yes. GCAR (par.1.03)	✓		
55. What information is disclosed about foreign currency restrictions? (F60)	See Comment			55. No specific requirements; if it is relevant for the true and fair view, information should be disclosed.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
56. Are significant events arising subsequent to the balance-sheet date reflected in the financial statements or notes thereto? (C59)	Yes. Civil Code, Book 2, Title 9, articles 362, 391, and 392; Draft GCAR (par.4.03)	✓			
57. Please list any standards for the Netherlands for which there are no corresponding U.S. standards.					57. Unique standards follow: • model chart of accounts, based on the EEC Fourth Directive • governmental decree on application of current value accounting • treatment of legal reserves and revaluation reserves • accounting for government grants

Bibliography

The information in this booklet was compiled from many sources in the Netherlands. Significant references follow:

- Pronouncements of the NIvRA (See appendix A)
- Dutch Civil Code, Book 2, Title 9
- Guidelines of the Council for Annual Reporting

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